

## COMMERCIAL REAL ESTATE MARKET UPDATES

### GENERAL

市場概括

- Falling Values Appear to Slow  
地產價值跌滑開始緩慢
- Split-Roll Property Tax Ballot Initiative Cleared by Election Officials  
加州商業地產稅收可能推出新法
- Looking for Land in All the Right Places  
住宅建造商開始買地

### RETAIL

購物商場

- Shopping Center Receiverships and Foreclosures Usher In New Year  
購物商場進入破產管理及法拍
- Foot Locker Closing 200 Stores This Year  
Foot Locker 今年將關閉 200 家店

### INDUSTRIAL

工業倉庫

- Industrial Trends for 2010  
2010 年工業倉庫前景
- Can Uptick in Exports Bail Out Calif.'s Industrial Market?  
出口增加能否幫助加州的工業倉庫擺脫困境?

### OFFICE

辦公樓

- Tinseltown Real Estate Tarnished But Still Attracts Investors  
好萊塢地產雖問題多多卻依然吸引投資者

### FINANCING

貸款與資金

- Commercial Real Estate in 2010: Liquidity Still Dried Up  
2010 年商業地產資金依然無法正常流動
- Latest Residential Loan Rates  
最新住宅地產貸款利率

### STC 2010 New Year's Countdown Photos STC 東區 2010 跨年晚會實況





## Falling Values Appear to Slow

*Most real estate experts don't see an end to valuation declines until employment, property fundamentals improve*

### 地產價值跌滑開始緩慢

*大多數地產專家認為在就業率和產業基本運作開始好轉之前，地產價值會一直下滑*

By MANDY JACKSON

As long as unemployment continues to rise, causing occupancy and rental rates to drop, it is hard to see when commercial property values will begin to climb again.

Valuation declines are beginning to slow, but most real estate observers continue to see values falling over a cliff without a bottom. However, some glimmers of optimism are beginning to show.

In the fourth-quarter Commercial Property Index compiled by New York City-based Integra Realty Resources Inc., a quarterly survey conducted in November among the valuation and consulting firm's 59 managing directors across the United States, respondents said the deterioration of values in the third quarter was smaller than declines experienced in previous quarters over the past year.

Integra's managing directors anticipate an additional 5 percent decline in commercial property values through the first six months of 2010, which would be a marked improvement from the 11 percent to 17 percent depreciation seen in 2009.

"We're not out of the woods yet, but we can see the sunlight," said Jeffrey Rogers, Integra's president and chief operating officer.

By Integra's estimation, commercial property values are down 42 percent nationally from the peak in 2007.

"The rate of decline is continuing to slow," Rogers said. "We think it will bottom out sometime around the end of the second quarter or beginning of the third quarter of next year."

The drop has been steep, but the market seems to be reaching an equilibrium point, he said. And while stabilization appears to be coming by mid-2010, property value increases will be delayed as long as unemployment figures continue to increase and keep landlords from filling vacancies.

If the job market doesn't turn around and demand to lease real estate doesn't improve in the second half of 2010, Rogers said there will be further property value declines beyond the 4 percent to 6 percent that Integra is forecasting for the first half of this year.

The valuation firm will conduct another survey of its managing directors in second-quarter 2010 to determine the property value outlook for the rest of the year. Before then, there are so many variables in terms of employment figures and financing availability, Rogers said it's hard to project where values will be beyond a six-month window.

When the Investment Trends Quarterly generated by Real Estate Research Corp. and the CCIM Institute surveyed Certified Commercial Investment Members during the third quarter, respondents ranked investment conditions for the five major commercial property types on a 1 to 10 scale.

The outlook improved or was unchanged, depending on the property type, from second to third quarter, but remained below expectations in third-quarter 2008. CCIMs viewed apartments most favorably in the third quarter, giving the sector a rating of 5.5, followed by industrial at 4.3, office and retail at 3.8 and hotels at 3.6.



When ranking value versus price, CCIMs gave all of the property types a combined rating of 4.8 out of 10, indicating that members generally believe prices still outweigh values. Rankings improved for all property types, indicating that the gap between pricing and value is narrowing slightly.

Richard Juge, 2010 CCIM Institute president and president of RE/MAX Commercial Brokers in Metairie, La., said there appears to be some stabilization of values in most markets.

"On a 1 to 10 scale of opinions from CCIMs, we see hints of optimism that maybe things are starting to look good," Juge said.

While commercial property sales above the \$5 million mark remain significantly lower than in 2007 and 2008, he said volume seems to be picking up in the \$1 million to \$5 million range and lending terms offered by regional and community banks have improved slightly from 12 months ago.

"People are still scared, they still don't know what's going to happen in 2010," Juge said. "Stabilization is kind of the key word."

CCIM is tracking data such as consumer confidence levels and its own numbers of professionals becoming CCIM candidates. Recent improvements in those areas are seen as signs that things are stabilizing.

#### **Relative Rates of Return**

Some market observers see strength in commercial real estate for its value compared with other asset classes in which investors can place their capital.

Mike Kirby, chairman and director of research at Newport Beach-based Green Street Advisors, said in a December presentation for the National Association of Real Estate Investment Trusts that property values are increasing, based on the firm's analysis of REIT net asset values. Green Street looks at the net value of assets on REIT portfolios as well as the value of assets that REITs might be able to purchase to expand their portfolios.

"The good news is, we believe real estate went down nearly 40 percent peak to trough [and] we think it's down about 33 percent today," he said. "We think to be priced fairly versus corporate bonds and other capital market benchmarks, it has another 5 to 10 percent rise that could easily take place in the next year or two."

The Moody's/REAL Commercial Property Price Index compiled by Moody's Investors Service and Real Estate Analytics LLC has a less optimistic reading of property values. The CPPI posted a 3.9 percent August-to-September value decline, bringing the index to a reading of 109.61.

The rate of value declines for all property types seems to be slowing as the CPPI fell 3.2 percent per month on average for the four months ending in September and 4.6 percent per month on average for the four months ending in May.

In total, the September index from Moody's and REAL represented a 37 percent decline in U.S. commercial real estate values from the same month in 2008 and 42 percent decline from September 2007. Among property types, the CPPI is down 38.9 percent during the past two years for apartments, 36.8 percent for industrial, 35.9 percent for office and 27.4 percent for retail.

Ernst & Young LLP reported that dollar volume for U.S. commercial real estate investment has fallen further than the number of transactions last year. During the first three quarters of 2009, transaction volume dropped 67



percent while the dollar value plummeted 73.5 percent compared with the first nine months of 2008.

Chris Seyfarth, partner in real estate transaction advisory services at Ernst & Young in San Francisco, said there were a lot of investors circling around assets on the market without buying last year. Now buyers are getting more comfortable with the prices that sellers are trying to achieve and moving forward with some transactions.

"That might suggest we're getting close to a bottom, but we still don't see a lot of transactions," Seyfarth said. "There are transactions out there, but given the magnitude of the market it's not very many."

The dearth of transactions makes it hard for anyone to determine the value of assets with any real certainty since there are so few comparable sales to establish a trend in pricing.

Seyfarth said appraisers are looking as far back at 2008 and even 2007 for comparable transactions, but those deals were done under much different market conditions and financial terms than today. For an accurate valuation, he said appraisers need to look at transactions that closed in the past month, given the precipitous decline in values this year, but there aren't many - if any - comparables available in such a small timeframe.

Without comparable sales, Seyfarth said investors are looking instead at the cash flow or net operating income of an asset to determine the price they can afford to pay, followed by the capitalization rate for the investment and the likelihood that they can leverage the asset to boost their return.

With investors focusing first on cash flow, the most important factor in driving values higher is improvement in real estate fundamentals, because as vacancy increases and rents decline, values will continue downward.

"People buying real estate now are making the assumption that the upturn is in the distance," Seyfarth said.

Stath Karras, executive managing director of Cushman & Wakefield in San Diego, said the rate at which property values are declining may have slowed, but the trend continues to be falling - not rising - values.

However, Karras agreed that it is difficult to make an educated guess about whether values are on the verge of moving up or down because so few properties have traded hands to provide enough data for such an assessment. Without comparable sales to gauge value, investors are focused on real estate performance.

"As long as employment is hurting then rents will be impacted, so values will be impacted," Karras said. "That would suggest to me that values may still be impacted over the next year or so."

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## Split-Roll Property Tax Ballot Initiative Cleared by Election Officials

### 加州商業地產稅收可能推出新法

SACRAMENTO - California election officials recently cleared one of the two split-roll property tax ballot initiatives submitted in the fall by a powerful teachers union for circulation, a key step toward its eventual qualification for the November 2010 election.

The "Protect Homeowners and Close Corporate Tax Loopholes Act," sponsored by the California Teachers Association, claims corporations and commercial property owners do not pay enough in property taxes because



they can often change ownership without reassessment. The initiative calls for fair market value reassessments every three years on all commercial properties.

The initiative includes sweeteners for residential homeowners that would double their property tax exemption to \$14,000 and excludes the first \$1 million in personal property taxes to businesses. It requires 694,354 signatures by June 4 to qualify for the November ballot, according to the California Secretary of State's Office.

According to reviews by the state Legislative Analyst's Office and Finance Department, the initiative would generate about \$3 billion a year in additional net general fund revenues for the state and another \$400 million a year for local governments by 2014-15. State funding for K-12 schools and community colleges would increase about \$2 billion a year by that same period, officials said.

The initiative is one of two that were submitted by the union aimed at creating a so-called "split-roll" system separating commercial real estate from Proposition 13 protections. The other, which proposes a 0.55 percent increase on top of the 1 percent rate on which a commercial property is taxed, is still under review by elections officials.

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## Looking for Land in All the Right Places

### 住宅建造商開始賣地

By Alex Veiga

LOS ANGELES - The housing bust left homebuilders with plenty of red ink on their books as they walked away from swaths of land they no longer needed.

But now homebuilders are on the hunt again, vying for choice parcels even in foreclosure-riddled markets like Las Vegas, Southern California and Orlando, Fla., where prices are cheap and there are early signs of a recovery.

While not a full-blown land rush, experts point to a surge in land deals since early summer as home sales and prices began to stabilize. For the better lots, the competition is fueling bids well above the asking price.

"In the past [builders] had really been the ones that had been feeding the market and selling lots to investors," said Tom Dallape, a principal at The Hoffman Co., a land brokerage firm based in Irvine. "Now all of a sudden they are rushing back in."

Major players such as Ryland Group Inc. and Meritage Homes Corp. are among those that jumped into the fray. Meritage recently signed contracts to buy 2,500 lots spread out over new communities in several states, including California. The builder plans to open nine new communities.

Last summer, Ryland bought land or signed option contracts to do so in several markets, including Indianapolis, Atlanta, Houston, Las Vegas and Baltimore.

"We are pursuing more deals than at any time in the past several years," said Chief Executive Officer Larry Nicholson.



Of course, not all builders are looking to expand their land stockpile.

Pulte Homes Inc., for example, has been more conservative. The builder added thousands of acres to its land holdings when it acquired rival Centex Corp. in August. And roughly half of those parcels already are primed for construction.

"We're not one of those who need land," said Richard Dugas, Pulte's chief executive offer.

The timing of these land deals also could be risky.

"The stability we've seen has been nice, but it hasn't been for long, only five or six months," said Megan McGrath, an analyst with Barclays Capital. "There is certainly some risk that if the market tails off again or we start to see cancelations pick up, some of those deals that previously penciled may not pencil anymore."

Still, with new home sales up 22 percent in 2009, builders have grown more confident in their ability to estimate what they should pay for land and expect to profit after construction costs.

Builders primarily are looking for land in areas that are already cleared for home construction. That way, they will be ready to build and sell in just a few months.

In May, Trumark Homes bought 39 lots in Upland, where it plans to build homes early in 2010. The Irvine-based company bought the land - which already had paved streets and utility connections ready for construction - for less money than the previous developer owed the bank.

The previous owner planned to build and sell homes in the \$500,000 range. Trumark's homes will be priced \$200,000 less.

"We were able to get the land for free and the improvements they made we got at like 45 cents on the dollar," said Michael Maples, Trumark's chief executive. "The market changed."

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## Shopping Center Receiverships and Foreclosures Usher In New Year

### 購物商場進入破產管理及法拍

*By Sasha M Pardy*

The retail real estate industry was jarred over the recent string of receivership and foreclosure news involving major shopping centers -- which was unsettling at a time when the industry was hoping for positive news on consumer spending during the recent holidays and a hopeful beginning to recovery in 2010.

For insight on this issue, CoStar interviewed Greg Maloney, president and CEO of Jones Lang LaSalle Retail, whose firm has been appointed as a receiver or is dealing with several retail properties in foreclosure. In December 2008, Jones Lang LaSalle announced it had been appointed as the receiver for 10 retail properties. Today, the firm has 25 properties in receivership status that it is managing while it either tries to sell or reposition foreclosed properties.





Most of 2009 was marked by lenders and special servicers trying to get their arms around properties struggling with their loans, sorting out the most pressing problems, and attempting to tackle those in a "very thoughtful and hopefully profitable way," said Maloney. He said the timing of foreclosures and receivership announcements occurring at the end of the year was largely driven by year-end decisions by their lenders. "Servicers and banks were saying, 'if we're going to close these things out in 2010, let's foreclose on what we can by the end of the year.'"

Maloney expects this activity to continue well into the first part of this year as lenders that have decided to foreclose will want to do so "sooner rather than later." In an effort to keep costs down and speed the process along, Maloney expects many lenders and servicers will opt to "bypass receivership, foreclose on the subject property, put it in their REO portfolio, hire somebody to come in and secure the asset, and then turn it over to their investment sales people to get rid of it."

The exceptions that are more likely to first go into receivership, said Maloney, will be the very distressed assets, such as unfinished properties caught in disputes between the borrower and lender, and retail properties hit hard by a large number of vacancies.

With the caveat that there can be many circumstances affecting the strategy lenders and servicers decide to take, Maloney said, "Receivership is generally a very expensive process that [lenders] usually put a very troubled asset that has lost a lot of its value and they don't want to take on the liability risk at this time."

However, if the property is simply under-performing without a great deal of liability exposure, the lender might as well just foreclose on it, he added.

Regarding retail loan default trends, Fitch Ratings recently reported that the CMBS loan delinquency rate rose again in November -- reaching 4.29%, which is up 43 basis points from the month prior. While delinquency rates were up in November among all property types, the retail delinquency rate rose only slightly, from 3.55% in October to 3.81% in November, accounting for \$5.2 billion in delinquent retail CMBS loans. This rate is up from only .63% delinquency in November 2008.

However, Maloney said the CMBS loan default rate is no longer the key driver of shopping center foreclosures and receiverships. "The majority of the troubled retail CMBS loans have already been turned over to the special servicer or lender. There will still be more. However, the real tranch is the non-CMBS stuff, which is really starting to come up in 2010 and 2011. These are loans that are just going to mature and the lenders are very concerned because most of the properties have lost value. The property is worth less than what they loaned on it two to five years ago. That is what's really going to take place in 2010 -- a lot of borrowers and lenders, even more than before, trying to come to some sort of agreement to extend the loans and keep things going," or turn over the keys, said Maloney.

In the receivership process, Maloney said that in most cases, a lender hopes the receiver will stabilize the property, finding tenants for vacancies and keeping current tenants in place, so that it ultimately can be sold out of receivership, rather than taking it through the foreclosure process.

But that is easier said than done in today's market as potential buyers are still reluctant to execute sales at current pricing levels, said Maloney. "We have them in the market and I think we're very close to it. I think in the first quarter you're going to see a lot of the assets starting to trade hands -- especially out of receivership and foreclosure."



In most cases, especially in the first half of this year, Maloney said he expects sale prices to be low -- in many cases well below their previous purchase prices.

"I think the properties we're going to see sell first are the ones that have lost a lot of occupancy and NOI," said Maloney, adding that he expects a large number of distressed properties brought to market in the beginning of this year with the hope of making a quick sale and reposition for recovery by the end of 2010.

According to CoStar information, the fact that the number of retail properties in distress continues to rise supports Maloney's expectation. In the Sept. 24 CoStar article, "Recession Levies Hefty Punishment on CRE Property Values," Mark Heschmeyer reported that there were nearly 9,700 shopping centers in the U.S. under "distress" -- based on a tally of retail centers with vacancy rates of 60% or higher. As of this week, that number is up to 10,400 centers under distress, representing a 7.3% rise in little more than three months.

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## Foot Locker Closing 200 Stores This Year

### Foot Locker 今年將關閉 200 家店

*By Sasha M Pardy*

Athletic footwear and apparel retailer, Foot Locker, expects to have opened 40 new stores and closed 200 stores during its fiscal 2009 year (ends 1/31/2010), which is 60 more store closures than the retailer had originally anticipated. This year's net closure of 160 stores follows 144 net closures in 2008 and 157 net closures in 2007.

Foot Locker also plans to reorganize, combining the management of its Foot Locker and Lady Foot Locker divisions, including its Kids Foot Locker and Footaction units -- the company said its current president and CEO of Foot Locker's European operations, Richard Johnson, would become president and CEO of Foot Locker's U.S. division.

Following its 2009 store closure effort, Foot Locker would be left with 3,481 stores in North America, Europe and Australia. This number would be down 486 stores from its peak -- Foot Locker operated 3,967 stores at the end of 2004, which was the year it acquired 350 FootAction stores for \$225 million in bankruptcy court.

In the U.S., the average Foot Locker store is 4,100 square feet and located in a regional mall.

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## Industrial Trends for 2010

### 2010 年工業倉庫前景

*By Luciana Suran*

To put it bluntly, 2009 was one of the worst years for the U.S. industrial real estate market.

Record levels of industrial space were vacated and the national industrial availability rate surpassed its previous historic high of 11.8 percent, reached in early 2004. The outlook remains uncertain, but 2010 is shaping up to be a





better year. Not necessarily a great year, but a better one. There are a couple of emerging trends - strong export activity and increased intermodal transport use - that will play a significant role in industrial performance in the coming year and beyond.

### **Expect More Activity at Export-Oriented Ports**

Trade levels have rebounded but, by a number of measures, export growth has so far outperformed import growth. According to the latest monthly trade data, export growth that began in the second quarter of 2009 has reversed 36 percent of the recession-related losses. Imports, which also began growing in the second quarter, have erased only 25 percent of their decline. U.S. goods exports also have increased for six consecutive months through October 2009, while imports have grown for only four of these months.

This strong export performance is expected to continue as we move through 2010. The dollar remains low, making American-made goods relatively inexpensive for foreign consumers. Furthermore, global demand appears to be strong, judging from the latest global manufacturing and consumption data.

While, overall, the U.S. imports more goods than it exports, some ports tend to handle more incoming trade traffic and others more outgoing export traffic. The chart here shows the shares of export and import container traffic for 10 of the nation's largest ports prior to the recession's start in 2006. Clearly, some ports, such as Los Angeles - the nation's largest port facility, are geared more toward incoming import traffic. In L.A.'s case, Asian goods make up much of this incoming traffic. New York and Savannah, on the other hand, have a concentration of outgoing export activity. Given the stronger expected performance of export growth, the more export-oriented ports likely will fare better in terms of demand for industrial real estate space.

The ports of Los Angeles and Oakland are a case in point. In the last year, the TW Warehouse Rent Index declined 13.2 percent in Los Angeles, where imports represent almost 80 percent of all container traffic. The Port of Oakland, however, has a greater share of export activity and has experienced less severe rent declines of just 1.1 percent. Likewise, peak-to-trough decline in container traffic for the Port of Los Angeles also was more severe than for the Port of Oakland, down 46.1 percent versus a decline of 29.9 percent.

### **Transport: Expect a Sharp Rebound in Intermodal Use**

The coming year is shaping up to be better in terms of freight traffic. While still below pre-recession lows, freight traffic indicators have started to rebound. In particular, recently released data show that multimodal goods transport - the movement of goods by more than one method of transport - soared between 2002 and 2007. The value of goods shipped via single modes increased by 35 percent during the five-year period, while shipments via multiple modes increased by a whopping 73 percent.

Much of the growth stemmed from the steep increase in diesel prices between 2002 and 2007. The cost of diesel fuel more than doubled - in both nominal and real terms - giving shippers an incentive to use rail in combination with trucking.

Intermodal transport will likely continue to experience strong growth as we emerge from the recession. The economy has begun to grow again and oil and diesel prices are once again on the rise. Many major corporations have taken note of the advantages of rail transport and are modifying their supply chains to use rail in combination with truck transport. Honda, for example, recently opened an 80-acre port facility in Richmond, California in an effort to shift the volume of auto imports from the more southern Port of San Diego. The new facility is expected to eliminate more than 1,500 truck trips from San Diego to northern California.



The company also plans to use the site to increase its capacity to ship autos eastward via rail, as the Port of Richmond recently launched a \$40 million rail infrastructure project designed to help support greater capacity, which includes a second rail line for exclusive use by Honda.

Large intermodal projects are expected in coming years, including the Memphis Regional Intermodal Terminal, scheduled to open in January 2012 in Rossville, Tennessee. The facility will be used by Norfolk Southern to improve the ease of switching cargo between truck and rail and is expected to serve 327,000 containers and trailers annually.

The facility is part of Norfolk Southern's Crescent Corridor initiative, a 2,500-mile, \$2.5 billion public-private rail network linking the southeastern and northeastern U.S. that is designed to take a million long-haul trucks off the road. These infrastructure improvements definitely will come in handy in 2014, when the widening of the Panama Canal is expected to be completed, as increased vessel traffic to the Gulf and East Coast is anticipated.

Last but certainly not least, Warren Buffett's recent acquisition of Burlington Northern Santa Fe Railway is another sign that the future of rail traffic in America is bright. I examined the 20 markets in our Pipeline database that lie on the BNSF system, which extends along the West Coast, including the L.A./Long Beach ports through the Midwest to Chicago. I found that more than half experienced positive demand for rail-served warehouse space in the third quarter of 2009 - quite a feat, given that national net absorption remains very negative. These markets include Houston, Memphis, San Diego, Seattle and Denver. Chicago is another market worth mentioning, in which demand for rail-served warehouse space has stayed positive during the recession despite record-high availability. And for the past two quarters, rail-served warehouses in Kansas City have experienced falling availability rates. Given that we are living in uncertain times, the time is right to approach investing in industrial real estate from a macro-thematic approach. We expect strong export growth and increased intermodal activity to continue through 2010, which bodes well for an earlier recovery for regions and facilities geared toward these activities.

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## Can Uptick in Exports Bail Out Calif.'s Industrial Market?

### 出口增加能否幫助加州的工業倉庫擺脫困境

*By Kari Hamanaka*

As the U.S. and California economies adjust to declining consumer spending and a weak dollar, some say exports could help divert the slumping economy toward growth.

Research has shown a direct correlation between imports and the demand for industrial space in Southern California. If outbound containers do increase at the Los Angeles and Long Beach ports, the natural question for commercial real estate is whether an uptick in exports can be meaningful enough to impact the Southern California industrial landscape.

"One long-term trend that may lead to more exports is the declining American dollar," said Thomas Galvin, a research analyst in the Ontario office of Colliers International. "If the dollar continues to decline as many people believe, this will lead to a spur in exports. This is because goods produced here, in the U.S., will be comparatively cheaper versus foreign currencies."



The current monetary policy supporting a weak dollar, which translates to more exports, is what many are banking on for a recovery.

According to the University of California, Los Angeles' Anderson Forecast report for December, the national and state outlook calls for slow growth led by exports.

"The transition is being pushed along by the administration's weak dollar policy, which encourages exports and discourages the consumption of imports," wrote David Shulman, senior economist with the Anderson Forecast, in his report on the national economic outlook.

However, Shulman tempered that outlook and concluded that even an increase in exports would not be enough to "offset growth declines in consumer spending and state and local spending."

Exports for the nation are expected to increase 7.5 percent in 2010, according to the forecast.

At the state level, the outlook was very similar with growth not expected until the beginning of 2011 and the normal rate of growth to not resume until the middle of 2011.

"The keys to California's recovery remain, exports of manufactured and agricultural goods, a recovery in U.S. consumption which increases the demand for Asian imports and for products from California's factories, increased public works construction, and increased investment in business equipment and software," wrote Jerry Nickelsburg, senior economist with the Anderson Forecast, in his December outlook for the state.

October container traffic for the Los Angeles and Long Beach ports provided what some say is a sliver of hope. In October, the Port of Los Angeles reported an 11.8 percent increase in exports from the year-ago period. Meanwhile, the Port of Long Beach continued to report declining exports with a 10.1 percent decline, albeit a smaller decline than what was reported earlier this year.

But it will not be easy for the Southern California region to turn its attention away from the handling of goods coming into the state to focus on production - if that happens at all. It would require a complete overhaul of the makeup of the region's industrial base.

### **SoCal Industrial Landscape**

Even if exports tick up at the San Pedro Bay ports, Southern California's industrial landscape is dominated by warehouses and distribution centers, mainly used by third-party logistics providers or distributors involved in moving imports from the ports to a destination.

"Exports are not really a silver lining, since so much of our warehouse and distribution space in Southern California is geared to move things off boats [and] not readily onto them," Galvin said.

In the Inland Empire, in particular, Galvin said the region's industrial space was built to take imports, consolidate them and then move them to the rest of the country using trains or trucks.

"If that system was reversed, the Inland Empire could become a gathering point for manufactured and raw goods from the rest of the country," Galvin said. "Southern California remains the largest manufacturing base in the nation, and the Inland Empire would benefit if more of these manufactured goods were sent to consumers in Asia."



For Inland Empire industrial in general, Kurt Strasmann, managing director in Voit Real Estate Services' Anaheim office, said that in the last 60 days he has seen more activity. However, he could not peg those deals directly to export-related uses.

"The Inland Empire's got some tough times ahead, but I do think people are starting to make decisions and transaction volume is starting to increase," Strasmann said. "This is not the case in outlying areas, but it is the case in the western Inland Empire."

A groundbreaking was held Dec. 16 in Mira Loma for a 53,000-square-foot manufacturing and distribution center for Wakunaga of America Co. Ltd., a medicinal herbs provider.

Earlier in the year, the Riverside County Office of Foreign Trade helped facilitate a deal that brought South Korean auto manufacturer CT&T Motors to a site along Interstate 215 near Moreno Valley to build a manufacturing facility.

In Los Angeles County, KBL Group International, a sweater manufacturer, signed a 79,136-square-foot lease in November for manufacturing space in Santa Fe Springs.

Later that same month, the Downey City Council approved an agreement with Industrial Realty Group, which owns the site of what will be the future Tesla Motors manufacturing facility. Tesla will manufacture and assemble its Model S electric sedan at the new facility.

Despite recent activity, it is difficult to count whether more manufacturing deals will be enough to absorb the recent increase in vacant industrial space. The vacancy rate in the Inland Empire was 8.68 percent in third-quarter 2009, according to CB Richard Ellis. Los Angeles County had a 3.4 percent vacancy at the end of the third quarter, according to CB Richard Ellis.

Joseph Brady, president of Victorville-based The Bradco Cos., said it is likely to take four years to absorb the inventory in the Inland Empire and Southern California.

"The challenge right now is market stability, and we think it's a couple years away," Brady said. "We have such a huge inventory in the Inland Empire that has to get absorbed. I think we have to wait for that to happen."

According to Lance Ryan, vice president of marketing and leasing in the Carson office of Watson Land Co., most of the company's customers are involved in import-related activities.

"Of the over 10 million square feet of customers we have adjacent to the ports of Los Angeles/Long Beach, approximately 75 percent are involved in some form of distribution of product or third-party logistics," Ryan said. "This segment is almost exclusively import product, of which approximately 40 percent is consumed in the Southern California marketplace."

Ryan added that he is not aware of any export activity in the company's portfolio, which also includes Inland Empire properties.

### Reality Check

Given the genetics of the region's industrial base, John Husing, vice president of Redlands-based Economics & Politics Inc., said significant expansion of exports could be an issue for a region mostly built out to handle imports.



"Exports are not a major factor in industrial space in Southern California," Husing said. "Imports are much bigger and the problem we have is if the dollar strengthens, it will reduce imports but expand imports. It could work against the area unless - and that's a big issue - we start to see more production in Southern California."

Luciana Suran, an economist in the Boston office of CBRE Econometrics Advisors, added that any benefit from an increase in exports should be weighed against how much industrial space is available on the market.

"So much space was let up on the market that it's going to take a lot of manufacturing activity to get back to a place where we were before the recession started," Suran said. "A lot of factory space has been sitting there unused for the past year, year and a half. Once companies start producing, it's not that they're going to need new space because they already have plenty sitting there unused."

At the same time, should exports increase the activity will not go completely unnoticed in the industrial real estate market.

"It should help in the sense that it will keep things from getting worse," Suran said. "But, because exports tend to use warehouse space to a lesser extent than imports, it means recovery will be far off for California."

For the most part, if one looks at what is being moved out of the ports of Los Angeles and Long Beach, little of it is manufactured product.

Top exports at the Port of Long Beach, include petroleum coke, refined petroleum, waste paper, foods and chemicals. Top exports at the Port of Los Angeles last year included paper, scrap metal, fabrics, raw cotton and resins.

"By and large, the California ports, are more geared toward Asian imported goods," Suran said.

The transition from point A of being a goods-handling region to point B of being manufacturer is not a straight line. "If you could be manufacturing and exporting, it would be wonderful," Husing said. "The problem you have with that is California has such a problem with its economy because of California law. Let's face it, California is repeatedly known as the place in the country that is the least competitive for production."

Husing also reiterated the amount of time necessary for such change to occur. Meanwhile, the value of the dollar constantly changes, meaning growth based on exports could be just a fleeting hypothetical.

"For major effects to occur in the economy, there's a long adjustment necessary for that to occur, particularly if it means that suddenly we can produce when we don't currently have the facilities to produce," Husing said. "Maybe nationally the falling value of the dollar will have a positive effect. For Southern California, it's a different deal."



## Tinseltown Real Estate Tarnished But Still Attracts Investors

### 好萊塢地產雖問題多多卻依然吸引投資者

*By Keeley Webster*

Diversity and not dependence on the entertainment industry may be what makes Los Angeles one of the largest and most viable economies from a global perspective.

But in a recession it doesn't hurt to be home to an industry considered to be one of the more recession-proof as an economic driver.

"During the Great Depression in the 1930s movies did well," said Neil Resnick, executive vice president/tenant advisory group in the Los Angeles office of Grubb & Ellis. "Anything involving escapism always does well when things are bad."

Annual movie ticket sales topped \$10 billion for the first time ever in 2009. Whether or not this translates into increased lease signings or purchases of owner-user office space in Los Angeles by entertainment companies remains to be seen, Resnick said.

There appears to be more recent activity among entertainment companies with a number of lease signings in November, but appearances can be deceptive.

"I have a client that has been in roughly 14,000 square feet in Westwood," Resnick said. "Their business continues to do well, but I got a phone call as recently as two weeks ago that they want to start evaluating options in 2010 that would contract their space to 6,000 square feet."

Using that potential deal as an example, if it was announced that Resnick had brokered a lease for 6,000 square feet it could be seen as action occurring with entertainment lease signings, but the deal actually would represent a contraction, he said.

The Los Angeles office market experienced its eighth consecutive quarter of negative net absorption in third-quarter 2009, bringing the year-to-date total to a negative 4.3 million square feet, according to a third-quarter report from UGL Equis, a Chicago-based tenant representation firm. Vacancy increased by 60 basis points to 15.3 percent in third-quarter 2009 from 14.7 percent during the previous quarter.

The submarkets with the highest amounts of sublease availability were the Westside, an entertainment industry hotspot, at 2.1 million square feet and the Los Angeles North market at 1.5 million square feet, the UGL Equis report states.

### Industry at Crossroads

While state incentives included in legislation signed last February by Gov. Arnold Schwarzenegger created tax credits for film and television productions have slowed the fleeing of film and television productions to other states and Canada, the industry is undergoing a transformation whose impact remains to be seen, according to Jack Kyser, founding economist of the Kyser Center for Economic Research at the Los Angeles Economic Development Corp.

"The entertainment industry is starting to recover from a variety of ailments," Kyser said. "It had the labor





uncertainties, the WGA strike, the screen writer guild strike, and runaway production."

State officials have been able to pull some of the runaway production back through incentives, but Kyser questioned how long that would last considering the financial crisis the state is undergoing.

"If you look at the domestic box office, it is up 8.6 percent to date," he said. "This year [2009] domestic box office receipts reached over \$10 billion, which is a new record, but the studios are watching costs and they all have exposure to declines in advertising."

While prospects for the industry appear to be bright going into 2010, studio executives are going to be looking ahead to 2011 when all the guild contracts expire again, Kyser said.

"You have a more moderate leadership in the guilds, but there will be a lot of discussion about how the talent is compensated, considering new ways of delivering content," he said. "And no one has come up with a solution yet."

Mixed signals abound in the entertainment industry.

Comcast's recent purchase of NBC Universal has been seen by some as a positive occurrence because Comcast may need more real estate.

But Resnick said that Comcast was considering a consolidation of its office space in Los Angeles County into one 400,000-square-foot space, but it is now looking for 50 percent of that.

"The firm Pandemic Studios, an electronic gaming company, laid off 250 employees the day before Thanksgiving in the building I work in," Resnick said. "I would hardly say the entertainment community is doing OK."

But other brokers have been experiencing a different aspect of the entertainment industry.

Jim Jacobsen, co-president and managing principal of Lee & Associates West Los Angeles office, who specializes in landlord and tenant representation for entertainment clients, has been working with clients who are expanding their office presence.

One client, The Lionstone Group, just purchased the Lantana Media Entertainment Campus from Maguire Properties Inc.

The Los Angeles-based real estate investment trust reported that it sold 463,000 square feet of the five-building campus to Lionstone and a 66,899-square-foot office property on the campus to NARAS Properties Inc., an affiliate of The Recording Academy best known as the producer of the Grammys. The deal will eliminate \$176 million of debt and generate \$19 million in proceeds for Maguire.

Jacobsen can tick off a number of lease signings in the Westside he has brokered that involved expansions by such companies as Sony.

Sony recently expand its space in one deal by 20 percent, Jacobsen said. For Sony, that represented an increase from 50,000 square feet to 70,000 square feet on lease renewal. The company was given a 15 to 20 percent discount on rent, which placed its rent at nearly \$5 a square foot.

"There were 500,000 square feet of blend and extends or renewals that happened in the third quarter," he said.



## Market by Market

According to FilmL.A., a private nonprofit organization that coordinates and processes permits for long-location film, television and commercial production on behalf of municipalities, reported declines in permitted production days in the Los Angeles region in each of 2009's first three quarters. In the third quarter, total production days declined by 14.3 percent from the prior year. Yet that represents an improvement from the prior quarter when production days declined by 31.4 percent compared with second-quarter 2008.

The entertainment industry isn't experiencing the "bloodbath" that people have been expecting as job losses continue, Jacobson said.

He and other brokers in his office believe the Westside office market has reached a floor, which means "it is time to start rebuilding."

Part of Jacobsen's more positive outlook stems from the fact that his client Lionstone is experiencing 100 percent occupancy in the portfolio it owned prior to the Lantana purchase, he said.

But Jacobsen said his approach to filling the 20 percent vacancy in Lantana is the more conservative approach of looking for five tenants who will take 8,000 to 10,000 square feet rather than trying to snare the elusive Google, which had been scouting Los Angeles for additional space in the 50,000-square-foot range.

During the recent boom, the definition of what exactly is the Westside submarket expanded to include Culver City and Playa Vista.

Those areas were a draw for studios and other entertainment-related users like gaming companies that were seeking large blocks of contiguous space not available in other areas of Los Angeles.

With rents declining in the prime northern Westside markets and space opening up, times are tougher, particularly for the 2 million square feet of office development planned for part of Playa Vista, the 1,087-acre master-planned community.

Lincoln Property Co. wooed Fox Interactive into taking up the majority of the office space in its first phase of development at Playa Vista only to see the entertainment company decide not to expand its employee base and move into its new digs in June 2009.

Fox has a 12-year lease valued at \$350 million, so Lincoln still is getting paid, but the vacancy level in the lower Westside remains high as Fox tries to sublease the half million square feet it is leasing from Lincoln.

"We are aware of what is happening in the market, but because the Fox rent is coming in we are not in a hurry to lease the office space in the buildings we have under construction," said David Binswanger, an executive vice president with Lincoln Property Co.

Lincoln has another 300,000 square feet of office space under construction in Phase II of its office development project at Playa Vista, which it expects to complete by fourth-quarter 2010, Binswanger said.

Although Lincoln doesn't have immediate financial problems pushing it to lease the second phase of the project, for the right deal it would be willing to sign a lease agreement at current market levels, Binswanger said. He considers current market levels to be between \$3.50 and \$4 a square foot, but he also acknowledges that it is a



tenant's market and deals right now often include tenant improvements, free rent, parking concessions and credit concessions.

Lincoln may be faring well with its Playa Vista investment, but Tishman Speyer just had a 575,000-square-foot property on which production facilities were planned go into receivership.

The 56-acre Tishman parcel that is encumbered by a \$155 million defaulted loan includes an industrial building, four bungalows and 10 historically designated buildings formerly owned by Howard Hughes, including the famed Spruce Goose hangar.

Tishman already had some success at Playa Vista in developing and leasing most of four office buildings it purchased under a different loan, according to Steve Sugerman, a spokesman for Playa Vista.

"Tishman has built four buildings and three are leased," Sugerman said. "Belkin is taking two buildings, a division of the University of Southern California is taking one of the buildings, and it still owns the fourth building."

The nearly 600,000-square-foot property purchased by Tishman uses a loan that was sold into the commercial mortgage-backed security market on which KeyBank is acting as the special servicer, said William Hoffman, chief executive officer of Trigild Inc., a San Diego-based receivership and loan recovery specialist.

What will limit the pool of investors seeking a large parcel on Los Angeles' Westside is that cash buyers only need apply, he said.

"If you want to buy a property from a receiver and need to go out and get financing, you will probably not get that deal," Hoffman said. "You can't put down a deposit and tie up the property for six or nine months while you try to get financing and then get your deposit back if you don't get financing."

### **Investor Interest Continues**

Kevin Shannon, a vice chairmain in the Los Angeles office of CB Richard Ellis, said he is seeing interest from owner-users in the first couple of weeks of listing the property for Trigild.

"We are hearing from office users, entertainment, developers, studios - we are getting all types of interest because of the diversity of the offering," he said. "We are anticipating we will have offers by the end of January."

In addition to its attraction to the entertainment industry, which Shannon said is partially recession-proof, it is the last large property left in Los Angeles.

"It will be interesting to see how it plays out," he said. "If the previous borrower had owned the property on a different basis, the company had activity and could have made several deals. But the basis was wrong."

There may be room for optimism for office owners who are hoping to fill vacant space with entertainment users, but the pain isn't over. Entertainment businesses may not be disappearing and some are doing very well, but they also continue to downsize or change their business model, Jacobsen said.

"Don't put me in the camp that says the entertainment industry is doing well," he said. "It is more that they aren't doing really badly."



## Commercial Real Estate in 2010: Liquidity Still Dried Up 2010 年商業地產資金依然無法正常流動

*By Mark Heschmeyer*

The outlooks for the New Year have begun coming in and a review of year-end forecasts for 2010 show that many commercial real estate industry watchers remain fearful of weak fundamentals and constrained liquidity. Yet, they also reveal some optimism in some sectors, such as homebuilding and lodging.

We've compiled a few of the outlooks here, organized from more-doom-and-gloom to brightening outlooks, which is how most of them view how 2010 will play out: starting out rough but improving the further along we get.

"The commercial real estate industry is a disaster waiting to happen," said Andy Bogdanoff, founder and chairman of Scottsdale-based Remington Financial Group, a capital services company told a meeting of industry representatives recently. "With U.S. banks in a deep and continuing liquidity crisis and with \$1.2 trillion in commercial debt due to mature by 2013, thousands of real estate owners and developers across the country will soon find themselves between a rock and a hard place when their loans mature. Even if bank liquidity weren't an issue, estimates are that two-thirds of the securitized loans and half of the whole loans due to mature between 2010 and 2013 would not qualify for refinancing due to today's more stringent banking standards," Bogdanoff said.

Bogdanoff added that the unprecedented high cost of funds, coupled with a 40% decline in real estate values since 2007, further compounds the problem.

"With property values less than the original debt, thousands of owners and developers may have no choice but to sell their properties at a loss or face bankruptcy when their loans mature. If the problem isn't solved soon, the result could be a disaster for the commercial real estate industry and the U.S. economy as a whole."

That view was supported by other professionals as well who predict a hard slog toward economic recovery in 2010 as businesses weighed down by debt hit rough patches and credit markets shun them.

Nearly half (49%) the respondents to the Turnaround Management Association's distressed industries forecast think durable economic improvement is unlikely until at least the second half of 2010. About three out of 10 think the worst is over, but nearly 20% suggest the economy has yet to hit rock bottom.

Three out of four respondents said they think the commercial real estate industry will fare the worst in 2010 as debt matures and lenders remain reluctant to refinance.

"Capital markets, the life blood of real estate, remain stressed," said Anthony S. Graziano, chairman of Integra Realty Resources, Inc. "Deal flow has dwindled to a crawl due to limitations on new financing and requirements for larger equity positions. Refinancing has become difficult as credit markets continue to tighten with strict lending standards, and real estate lending competes with the government's liquidation of local and regional banks. Yet this year's report does contain signs of life in each sector."

"We expect that 2010 will continue to provide mixed signals with regard to the recovering economy and real estate markets," said Jeffrey Rogers, president of Integra. "Values are down 43% from their peak in October 2007, and the Integra Commercial Property Index predicts a further decline of 5% in the next six months.

Transactions volumes should recover somewhat from their lows in 2008 and 2009 due to the return of some



liquidity in the credit markets. However, volumes will be significantly less than their 2006-2007 highs. Two economic pitfalls to watch will be consumer credit and oil prices. There is significant danger that consumer credit delinquencies and defaults could rise drastically in 2010."

#### **REITS: Improved Liquidity But Weak Fundamentals**

Despite improved liquidity profiles and access to the unsecured debt market, weak property operating fundamentals across the U.S. equity REIT sector and the uncertainty as to the exact timing of a full economic recovery remain areas of concern for U.S. equity REITs in 2010, according to Fitch Ratings in its 2010 Outlook report.

In addition to weakening fundamentals, U.S. equity REITs continue to have above-average leverage in comparison to historical levels. Substantial amounts of follow-on common equity were raised during 2009 across the sector, the proceeds of which were used to repay outstanding indebtedness. However, Fitch remains concerned that future deleveraging actions are less likely in 2010, given the dilutive nature of most follow-on common stock offerings.

Fitch said that the recovering U.S. economy is still subject to economic shocks and the pace of expansion will likely be weaker than previous recoveries.

"If liquidity and access to capital remains strong, expect more rating affirmations and fewer downgrades and downward Outlook revisions that characterized 2009," said Steven Marks, managing director and U.S. REIT group head for Fitch. "Conversely, less access to capital and increased use of secured debt will put a strain on liquidity," which Marks added will lead to a more circumspect view of the sector.

Despite weakened fundamentals, Fitch maintains a stable outlook for multifamily REITs in 2010 due to limited supply and continued access to low-cost financing from Fannie Mae and Freddie Mac.

Health care REITs' stable outlook is largely driven by demographic trends that continue to benefit the health care sector, portfolio diversity and limited supply.

Meanwhile, the prospect of further store closures and weak leasing activity will continue to weigh on retail REITs (negative outlook). Overall retail sales in 2010 will be flat to up modestly from 2009 levels, translating to soft consumer demand due to high unemployment levels, continued challenges to consumer credit and ongoing U.S. household deleveraging.

Unemployment remains a more pivotal factor in the health of office REITs (negative outlook). While the economic recovery is underway, office REIT fundamentals will not improve until unemployment begins to decline.

Above-average leverage and a slow economic recovery, which has reduced overall productivity and the need for space, are the key drivers behind the negative outlook for industrial REITs.

#### **Lodging: Still Bad But Looking Better**

The pace of recovery of the U.S. lodging industry has accelerated from previous expectations, according to PKF Hospitality Research in Atlanta. Improving industry data for such key indicators as occupancy, RevPAR and demand suggest that the recovery will arrive a full quarter earlier than the firm expected in September 2009.



"Make no mistake about it, 2010 will continue to be a tough year for U.S. hotel owners and operators," said R. Mark Woodworth, president of PKF Hospitality Research. "We are forecasting that, on average, properties will continue to suffer year-over-year declines in revenue and profits from an already dismal 2009. However, given the deceleration of room rate discounting that we observed during the third quarter of 2009, we believe the severity of the losses incurred in 2009 and 2010 will be less than previously forecast. In addition, year-over-year growth in important measurements, such as occupancy, RevPAR and demand, will be realized a full quarter earlier than we were thinking three months ago."

"While our forecast for ADR movement in the third quarter was a bit pessimistic, we recognize the change in pricing trends and have applied it to our thinking regarding the future. Accordingly, this year's annual ADR forecast has been reduced to a decline of 8.8% and our 2010 ADR forecast is now a minus 1.5%. These compare to declines of 10.4% and 3.1% that we forecast last quarter," Woodworth said.

PKF-HR is also now forecasting lodging demand to post a quarterly year-over-year increase during the first quarter of 2010, thus ending eight consecutive quarters of declines. On an annual basis, PKF-HR is now forecasting lodging demand to rise 1.9% in 2010, up from the 1.6% increase forecast back in September.

#### **Homebuilding: Four-year Downturn Coming to an End?**

With various macroeconomic housing and related statistics bottoming about mid-year 2009 and subsequently moving forward in fits and starts, a four-year downturn has evidently come to an end for U.S. homebuilders, according to Fitch Ratings in its outlook report for the sector.

While Fitch maintains a Negative Outlook for U.S. homebuilding in 2010, the expected conclusion of the national housing credit has positively influenced housing data over the last few months. Pending home sales, existing home sales, single-family housing starts and single-family new home sales have been generally showing improvement after bottoming out earlier this year. The same holds true for new home inventories, home pricing and consumer and builder sentiment.

Nevertheless, Fitch anticipates that the early stages of this expansion may be more muted than the average. During the first 12-15 months off the bottom, the recovery may appear jaw-toothed as substantial foreclosures now in the pipeline present as distressed sales and as meaningful new foreclosures arise from Alt-A and option ARM resets. High unemployment rates and the probable tightening of certain FHA loan standards (higher minimum credit scores for new borrowers and greater upfront cash requirements) will be notable headwinds early in the upcycle.

"The continuation and expansion of the national housing credit should partially help offset expected seasonal declines during the winter months through the spring of 2010," said Robert Curran, managing director and lead U.S. homebuilding analyst for Fitch. "The federal government's continuing efforts to moderate foreclosures may also show some success in 2010."

"With operational and financial pressures moderating to some extent, most public homebuilders have to operate successfully within this still challenging environment or wither away," said Curran.

Companies have to at least maintain current cost profiles or continue to downsize to the point where they can remain/be profitable (excluding nonrecurring real estate charges). That means possible further moderate cuts in staffing and other overhead, as well as other cost reductions.





Fitch expects the economy to return to positive growth next year, primarily reflecting the impact of the fiscal stimulus package, but also some likely stabilization in housing investment and a weakening inventory overhang.

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### **Latest Residential Loan Rates [Slightly Higher than Last Week]**

#### **最新住宅地產貸款利率【比上周稍跌】**

*Conforming rates for loan amounts of 100k to ~700k depending on County*

- 40 Year FIXED @ 5.625%
- 30 Year FIXED @ 4.875% \*Agency High Balance\* @ 5.250%
- 30 Year FIXED Interest Only @ 5.500%
- 15 Year FIXED @ 4.375%
- 5 Year ARM @ 3.875%
- 5 Year I.O. ARM @ 4.250%

*Jumbo rates for loan amounts of ~400K to 1 Million depending on County*

- 30 Year FIXED @ 6.250%

*FHA & VA rates for loan amounts of 100k to ~700k depending on County*

- 30 Year FIXED @ 5.250% \*FHA HIGH BALANCE @ 5.250%\*
- 15 Year FIXED @ 4.500%