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Foreign Investors Still Bullish On U.S Property
國外投資者對美國地產依然表示樂觀

Latest Survey of AFIRE Members Confirms Ongoing Interest from Offshore Capital in U.S. Market, but Not Many Wallets Have Opened Yet. PPR Predicts Foreign Buyers Will Lead Those Looking For Deals In 2010

By Randyl Drummer

More than half of foreign investors now say the U.S. provides the best opportunity globally for growing the value of commercial real estate investments, according to the annual survey conducted among the members of the Association of Foreign Investors in Real Estate (AFIRE).

Foreign investors for years have seen the U.S. as the world's most safe and secure haven for commercial real estate investments, and that didn't change in the most recent survey of AFIRE's nearly 200 members released this week. In the survey conducted for the association by the James A. Graaskamp Center for Real Estate, Wisconsin School of Business, 51% of respondents -- the highest percentage since 2003 -- identified the U.S. as providing the best opportunity for appreciation of capital investments, compared to 37% in 2008, 26% in 2007 and 23% in 2006.

In further evidence that higher numbers of overseas investors may finally be ready to shift into "buy" mode, CoStar's forecasting and analytic subsidiary Property and Portfolio Research, (PPR) Inc., predicts in a newly released white paper that a growing global demand for real estate will again reach U.S. shores this year, initally focusing on East Coast mega metros before rippling westward.

Two-thirds of respondents told the AFIRE survey that they plan to increase their investment in the U.S. this year compared to 2009. And investors said they plan to increase those U.S. allocations by 62% for equity and 83% for debt above last year's levels.

So, what gives? They said virtually the same thing a year ago, in the wake of the collapse of Lehman Bros and the near meltdown of financial markets. In December 2008, offshore investors told AFIRE they planned to boost U.S. investments by 73% in 2009 from 2008. "As they expect more favorable investment fundamentals to return in 2009, our members are poised to move more aggressively on acquisitions," C. MacLaine Kenan, 2009 AFIRE chairman, said early last year.

However, by the middle of fourth-quarter 2009, foreign investors had placed only 35% of their planned U.S. debt allocations and 23% of planned U.S. equity investments, compared to 62% and 43% globally. In all fairness, AFIRE's membership, like most other investment classes, took a hit in the recession. A year ago, the group's members collectively held nearly $1 trillion in real estate around the globe and $371 billion in the U.S. Those numbers fell this year to $842 billion and $304 billion, respectively.

Those surveyed have also dialed back their predictions for the recovery of U.S. commercial real estate markets by at least six months. In a mid-year survey taken last June, half of respondents said they expected heightened activity by the end of second-quarter 2010. In the latest survey, half the respondents now say they expect the recovery by or before the fourth quarter of this year.

"Although foreign investors expressed every intent to resume investing in 2009, like everyone else, their plans were sidelined by a paralyzed marketplace with no precedent and limited investment opportunities," noted Werner Sohier, senior portfolio manager of real estate for European pension administrator PGGM and AFIRE’s newly elected chairman. That said, one-third of survey respondents say they are more optimistic about the U.S. real estate market than they were in June 2009, while 6% say they are more pessimistic, with nearly two-thirds

saying their perspective is unchanged from last June. "New money is becoming available and the AFIRE survey points to an increased focus and interest in a few select markets for 2010, especially London and in the U.S., where prospects appear to be brightening," Sohier said.

CoStar subsidiary Property and Portfolio Research goes even further in its white paper edited by PPR's Director of Strategic Research Josh Scoville, predicting that foreign investment will come to the U.S. "in droves" in 2010, with capital already chasing real estate in Europe and Asia starting to alight on U.S. shores. These investors are expected to first go after well-leased assets in primary markets, especially CBD office trophies in the largest East Coast markets. Foreign capital will then trickle down to other major around-the-clock metro areas and top buildings in other markets.

Transaction activity picked up and prices strengthened in London and Tokyo in the second half of 2009, PPR noted. Foreign buyers have swept into London, with South Korea's national pension fund recently taking down the HSBC headquarters in London's Canary Wharf for US $1.3 billion, among other huge deals. "These buyers are conservative investors with a long-term view of real estate investment and a hankering for yield" - not opportunity or value-add funds, PPR said. Other Asian and German investors will follow, and major U.S. metros led by Washington, D.C. are the next logical recipients. Aggressive pricing will follow for assets in midtown New York and Boston's Financial District, followed shortly by Los Angeles, San Francisco and Chicago.

At least half of AFIRE respondents reported a stronger appetite for both debt and equity investments in the U.S. than in other countries. Globally, plans for equity investment this year exceed plans for 2009 by 46%, while plans to invest in global debt are down 20% compared to 2009.

In other survey findings:

- Respondents again stoutly chose Washington, D.C. as the top U.S. city for investment, followed by New York. Both received a stronger endorsement than third-place San Francisco, while Boston climbed into fourth place, knocking Los Angeles into fifth place.
- However, London surged into first place globally as a coveted parking place for investment dollars, and by a significant margin -- 31 points over second-place Washington and 40 points higher than third-place New York. Paris and Tokyo ranked a distant fourth and fifth place.
- For the second straight year, investors again expressed a firm preference for apartments as their property of choice, followed by office, industrial, retail and hotel properties. The gap between apartments and the least-favored product, hotels, is the widest since 2000, noted AFIRE CEO James A. Fetgatter.
- The financial crisis has exacted something of a toll on the United States' reputation as a safe investment harbor. While the U.S. remains the country selected as the "most stable and secure real estate investment environment," its lead shrank to 44% from 53% a year earlier and from 57% in 2007 -- the first time in the survey's history that the U.S. has fallen below 50% in that category. Still, the nearest competition pales -- Germany was ranked most secure by 21% and Canada by 14%.

"It is also apparent that opportunity lies within this instability since the U.S., along with the UK, shows substantially higher scoring for expected capital appreciation," with half of respondents ranking the U.S. as the top country for increased returns compared to only 25% in 2006, Fetgatter said.

The top five emerging markets are China, Brazil, India, Mexico and Turkey, according to the survey. However, Brazil and India each receive only half the votes that China receives as top emerging market, while investors indicate their intent to place almost all of their "emerging market" capital into China at the expense of other emerging markets.

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REITs Poised to Continue Recovery in 2010

不動產投資信託基金在 2010 年將繼續復蘇

Fundamentals and Results Won't Improve Overnight, But Strengthening Economy and Capital Liquidity Could Drive Higher Returns

By Randyl Drummer

Real estate investment trusts finished with a bang in 2009, and many analysts and industry observers remain guardedly optimistic in their outlooks for 2010, despite what is certain to be continuing weakness in property fundamentals and challenges to company operating results this year.

As companies prepared to release their fourth-quarter and 2009 year-end earnings, the National Association of Real Estate Investment Trusts (NAREIT) noted that REITs finished their strong recovery last year with solid gains in December.

The FTSE NAREIT All REIT Index increased 6.43% in December, bringing 2009 total returns to 27.45%, while the FTSE NAREIT Equity REIT Index was up 7.15% in December, with total 2009 returns at almost 28%. At year-end, both indices had outperformed most major market benchmarks for 2009, including the Dow Jones Industrial (18.82%), Russell 2000 (27.17%) and the S&P 500 (26.46%).

Since reaching a low point on March 6, the All REIT and Equity REITs indices rose a whopping 113.2% and 121.5% through the balance of 2009. The recovery was fueled in part by recapitalization -- trusts raised nearly $38 billion through public equity and debt offerings in 2009 -- and investor confidence that well-capitalized REITs will be able to acquire high-quality assets at very good prices, according to NAREIT.

Wall Street is sharing in the bullishness on the investment trusts, though sentiments are hardly unanimous.

After two years of forecasting negative returns for REITs, J.P. Morgan said in a research note last week that the sector could see total returns of 5% to 10% this year, with rising CRE transaction activity and increased job creation shoring up fundamentals and institutional investors and other traditional REIT investors returning to the fold.

Upcoming financial results and near-term guidance by REIT executives during earnings calls starting next week will likely continue to show the lagging effects of the recession and dilution from the industry’s recent re-equitization wave, Citi's Michael Bilerman said in a note.

At the same time, however, "the current capital, economic and real estate supply environment lends support to being optimistic about REITs future, despite serious commercial real estate debt issues and negative fundamentals to overcome," Bilerman wrote.

"This generally more positive outlook certainly has not been lost on the market, which has bid up REIT shares to elevated levels over the last 10 months."

Fitch Ratings, in its REIT report for the fourth quarter, opted to stay more guarded than optimistic, stating that the credit outlook remains negative for the U.S. equity REIT sector heading into 2010.

"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," Fitch said.

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However, Fitch added, the rating agency may well "revise the outlook to stable if expectations regarding property-level fundamentals, liquidity, and access to capital hold true in 2010."

In a reflection of the recovery beginning to take root in commercial property markets in some parts of the globe, Fitch said the 2010 credit outlook for European property investment companies (PICs) remains stable, mainly reflecting one-off improvements in United Kingdom property companies and capital structures during the first half of 2009.

Macquarie Equity Research reported this week that globally, dedicated real estate securities funds had a strong end to the year, with all funding mandates showing positive returns and an average 3.8% rise in December, according to Alex Moss, head of global property securities analytics for Macquarie. The U.S. topped all global performers with an increase of nearly 7%.

As a result of this strong end to the year, the average return across all funds was 27.6% in 2009, following two years of negative returns (-11.7% in 2007 and -45.3% in 2008). In 2006, the height of the real estate boom, the average total return was a comparable +36.4%, Moss noted in his report.

One example of the improving liquidity situation for REITs is the successful sale this week of $2.25 billion in bond debt notes by Simon Property Group Inc. The owner of more than 300 U.S. malls, which is using the proceeds to fund a buy-back of existing notes, sold the new debt in three classes. The classes included $400 million of 5-year notes at a 4.2% interest rate, $1.25 billion in 10-year notes at 5.65% and $600 million of 30-year notes at 6 3/4%.

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Movie Gallery May Close Another 1,000 Stores
Movie Gallery 有可能關閉 1000 家店
Hollywood Video Owner Struggling Under $600M in Debt

By Sasha M Pardy

Movie Gallery Inc. could close another 1,000 stores, and/or file Chapter 11 (again) in efforts to restructure the company, reported the Wall Street Journal, citing people familiar with matter. However, a bankruptcy or official number of closures has yet to be decided.

Reportedly, Movie Gallery is struggling with $600 million in debt, primarily created from its $800 million acquisition of Hollywood Entertainment Corp. in 2005.

At the movie rental retailer's peak in July 2007, the company operated 4,600 Movie Gallery, Hollywood Video and Game Crazy stores. Since the company emerged from bankruptcy in May 2007 through a go-private deal with Sopris Capital Advisors and Aspen Advisors, the company has closed approximately 1,900 stores, bringing it to its current 2,700-store chain size.

According to CoStar Tenant, the typical Movie Gallery is between 4,000 and 5,000 square feet, while the typical Hollywood Video is between 5,000 and 7,000 square feet.

Sam's Club Closing 10 Stores
Sam’s Club 將關閉 10 家店（包括南加州的 Irvine 和 La Quinta 兩家店）

By Sasha M Pardy

Wal-Mart Stores plans to close 10 Sam's Club stores, affecting 1,500 of its employees.

"These clubs continued to lose money and we have decided to close them," said Wal-Mart in a statement. According to CoStar information, these store closures will create at least 1.19 million square feet of vacant space.

Putting these closures in perspective, however, Sam's Club said it would open six new locations this year, as well as complete 52 remodels. In 2011, the company plans to open five to 10 new, expanded or relocated Clubs and remodel between 60 and 80 Clubs. Currently, 605 Sam's Club stores are in operation in the U.S.

Locations of the stores being closed follow.

- 5725 E. Franklin Road, Nampa, ID (122,338 sq. ft.)
- 16555 Von Karman Ave, Irvine, CA (118,270 sq. ft.)
- 79295-79485 Hwy 111, La Quinta, CA (132,000 sq. ft.)
- 3671 N Freeway Blvd, Sacramento, CA (136,852 sq. ft.)
- 1900 University Dr, Vista, CA (99,999 sq. ft.)
- 550 S McCaslin Blvd, Louisville, CO (130,333 sq. ft.)
- 1470 Golf Road, Rolling Meadows, IL (104,004 sq. ft.)
- 3895 Route 31, Clay, NY
- 2827 Dunvale Road, Houston, TX (130,333 sq. ft.)
- 2005 East Indian School Road, Phoenix, AZ (114,000 sq. ft.)

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Forecasters See Return to Stability, Not a Resurgence for Retail Real Estate in 2010
專家預測購物商場在 **2010** 年將逐漸穩定，但真正的復蘇還需時間

With the Worst (Likely) Over for U.S. Economy and Consumer Spending Turning Positive, Forecasters Say a Retail Recovery is On the Horizon, but Will Take Time

By Sasha M Pardy

Based on the flurry of reports from a wide range of industry observers, there appears to be growing consensus that the worst may be over for the U.S. economy and that, with consumer spending returning to positive, a retail real estate recovery is in sight, say industry forecasters.

We're not out of the woods yet, however, these same observers caution. The market should not expect 2010 to end with much-improved occupancy, higher rental rates, a flood of new space completions, or higher property sale prices. Instead, forecasters at Property & Portfolio Research, Grubb & Ellis, Marcus & Millichap, Jones Lang LaSalle and CB Richard Ellis, predict 2010 will mark a return to stability for the majority of U.S. retail markets.

Setting a hopeful direction for retailers' sales in the coming year, the International Council of Shopping Centers (ICSC) reported that retailers posted a 1.8% gain in sales for the holiday selling period (November-December). While positive, the sales figures are not considered "strong," but instead as setting a foundation for an expected stronger pace of retail spending in 2010. All-in-all, retailer's same store sales declined 2.4% in 2009 and for all of 2010, ICSC is forecasting a 3.9% gain in sales year-over-year across all retail segments.

PROPERTY & PORTFOLIO RESEARCH

In its "2010 Predictions" report released this month, Property & Portfolio Research (PPR) provided its expectations for economic factors impacting the retail market. In good news for retailers, the CoStar forecasting and analytics firm expects consumer incomes to remain flat, but still expects overall consumer consumption to increase slightly in 2010 due to pent-up demand and already pared-back budgets. With consumption converting to retailer sales and profits, this increase in consumption will eventually lead to retailers' backfilling vacancies at the nation's shopping centers.

For retail landlords, PPR expects the quality gap between shopping centers to widen, with the stronger position centers benefitting at the expense of weaker ones. PPR expects retail vacancies to continue to rise and hit historic highs in some metro areas, but that increase will be "driven by further deterioration in the weaker centers. Meanwhile, the stronger centers will do a better job in holding occupancy," said the firm. Shopping centers in trade areas that have higher density in the number of households that have been able to maintain higher-than-average income levels will fare much better, said PPR.

Unfortunately forecasting that property NOIs will continue to decrease in 2010, PPR expects mortgage delinquencies to continue mount this year. For retail, PPR is predicting about $100 billion in delinquencies to come about in 2010. In good news for those properties in distress, PPR expects the buyer pool to increase as job growth returns, because investors will be willing to take on more risk.

"The resumption of job growth will stimulate the desire and willingness to seek outsized returns by taking on greater risk. Once we start getting a couple of months of positive job numbers, we're going to see a lot of investors interested in cashing in on the opportunities that are out there, whether this means acquiring half-empty buildings or taking on assets with big lease-roll exposures," said PPR.

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MARCUS & MILLICHAP

In Marcus & Millichap's 2010 National Retail Outlook, Hessam Nadji, managing director of research services for the firm outlined the economic negatives and positives driving the retail market in 2010. "Housing market weakness and job losses, albeit drastically reduced, continue to challenge the onset of a sustainable expansion cycle. Economic headwinds, including elevated unemployment and high levels of consumer and public debt, will persist through the first half of 2010. Tight credit markets also dampen the possibility of a surge in spending this year, even if consumer sentiment steadily increases." While these risks persist, "a growing number of indicators point to a choppy, muted recovery as the most likely scenario," said Nadji.

Bernie Haddigan, managing director of the firm's National Retail Group said that while vacancy at the nation's shopping centers is forecast to rise another 70 basis points through the course of 2010, "much of the contraction of space demand has already occurred." He added that the firm is seeing leasing activity picking up, particularly with discount and necessity-format retailers backfilling vacated big box spaces. And while store closures have persisted, the amount of closures was on the decline throughout the latter half of 2009 -- a trend Marcus & Millichap expects will continue throughout this year.

On the development front, Marcus & Millichap expects 2010 to end up with the lowest amount of new retail property completions on record. The firm expects retail asking rental rates to drop another 2% this year, while effective rents are forecast to drop 4.2% in the same period.

For investors on the prowl with hopes of finding high quality, under-priced distressed retail assets on the market, Marcus & Millichap said not to hold out hope. With hundreds of billions of retail loans maturing in the next three years and no major improvement in retail property NOIs expected in 2010, Marcus & Millichap said the pool of distressed assets on the market will increase, however, the quality of these properties will be highly weighted to the low side, as lenders will continue to avoid foreclosing on performing assets.

GRUBB & ELLIS

In its 2010 Real Estate Forecast report, Grubb & Ellis predicted that commercial real estate fundamentals would continue to decline in 2010, however, that decline would progress much slower than in 2009 -- the firm said a commercial real estate recovery wouldn't commence until early 2011.

Bob Bach, senior vice president and chief economist of Grubb & Ellis said that because the labor market isn't expected to improve until the latter half of 2010 and commercial real estate lags the labor market, our industry "still has a way to go before reaching its own low point." The silver lining, said Bach, is that "the freefall we saw in 2009 is over and the future is more certain, giving owners and users of real estate the confidence to begin making decisions again."

With retail being the commercial real estate sector most impacted by unemployment, Bach expects the national retail vacancy rate will continue to climb through 2010, creating additional negative net absorption -- he doesn't expand meaningful demand for retail real estate to start until 2011.

"Retailers and owners of retail real estate will need to adapt to a 'new normal' in consumer attitudes that may last for some time, including more conservatism and attention to value as households rebuild their savings," said Bach, adding that this consumer paradigm shift will cause retailers' sales to "not bounce back to their debt-fueled levels of 2006 and 2007 anytime soon."

Grubb & Ellis' "Investment Opportunity Monitor" ranked the U.S. retail markets by their forecasted "strength" from 2010 to 2014, which is based on 17 different property, economic and demographic variables. According to this index, Grubb & Ellis expects Los Angeles to be the strongest retail market for the four-year period, followed by Houston, Dallas, Raleigh, Atlanta, Washington D.C., Austin, San Diego, Portland and San Francisco.

Coming off 2009, which produced a 2% decline in rents, as well as the largest increase in the retail vacancy rate and largest amount of negative absorption on record for the country's shopping centers, Grubb & Ellis is predicting another 90 basis point increase in the vacancy rate by the end of 2010, accompanied by an additional 7 million square feet of negative absorption and another 1.5% decrease in retail rental rates. Having said that, there will most likely be more activity in retail leasing, said Grubb.

By shopping center type, Grubb & Ellis said that "fortress malls with stable national tenant rosters", grocery-anchored centers and centers with strong discount tenants have and will fare the best this year. In the worst shape are unanchored strip centers located on the "urban fringe where housing construction has stopped and trade areas are only partially built out," said Grubb & Ellis. On the bright side for investors, these are the centers under the most distress that represent the "best investment deals for aggressive buyers willing to wait out the downturn," added Grubb.

JONES LANG LASALLE

Jones Lang LaSalle provided its expectations for the retail investment sales market in 2010. In the coming year, JLL predicts there will be a modest increase in retail property demand, leading to a gradual rise in retail investment sales volume. Most investors with cash will concentrate on acquiring Class A "trophy" shopping centers, said JLL.

Jim Koury, managing director of retail investment sales for JLL, said that he is witnessing a growing demand for retail property, with supermarket-anchored centers and the most risk-averse single-tenant assets garnering the most interest. Koury said shopping centers with credit tenants are trading at the mid-to-high 8% cap rate range in certain major metro markets. In 2010, we will also see developers' interest in buying land improve, as retailers are once again making new store commitments in "choice locations."

Demand has been building up among the opportunistic investor set, and while they remain cautious in 2010, those buyers should have a larger pool of distressed retail assets to choose from as this year progresses, said JLL, because " the discrepancy between values and loan amounts continues."

Kris Cooper, Managing Director of Jones Lang LaSalle's retail investment sales practice, said that one reason more transactions will take place this year is because sellers and buyers are coming closer to a meeting of the minds on price and terms. Having said that, Cooper expects that "many highly leveraged institutional-type investors will continue to delay sales -- unless they face debt maturities or require additional capital."

Acquisitions will continue to be difficult this year, however, as the debt markets remain an issue, said Cooper, adding, "For loans on better retail properties, loan-to-value ratios have slightly improved, but interest-only loans are a relic of the past.

In good new for retail landlords, Greg Maloney, CEO and President of JLL Retail said that retailers that have survived this recession are stronger for it. "Retailers have undergone fundamental changes during this recession-reinventing themselves, rightsizing their footprints and figuring out new ways of attracting consumers. These changes bode well for not only shoppers, but for the entire future of the retail industry."

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CB RICHARD ELLIS

According to a report titled "The Upside of the Downturn," which was put together by CB Richard Ellis Econometric Advisors and CB Richard Ellis Capital Markets, investors should hold hope for 2010, as "future conditions will not be as bleak as some investors fear."

In this report, CBRE forecasted retail capitalization rates, based on appraisals, through 2018 -- the firm predicts the average retail cap rate will land at about 7% by the end of 2010, reaching a high of about 7.5% in 2011, and then steadily declining back down to 6% in 2018. CBRE points out, however, that appraisal-based cap rates lag the market by a handful of months, as they are based on closed transactions.

Forecasting interest rates on loans, CBRE expects interest rates to remain low, even as the US economy recovers and expands. Specifically, it expects the 10-year treasury to hit a max high of 5.5% in 2011, but trending at an overall average 4.7% over the next ten years.

CBRE forecasted which U.S. markets are expected to have the most distressed assets. The markets likely to have the highest level of distressed assets, were named as Orlando, Los Angeles, New York, Detroit, Tampa, and San Francisco. Markets likely to have the lowest level of distressed assets surface include San Antonio, Raleigh, Salt Lake City, Washington D.C., Nashville, Charlotte, Atlanta, Houston, Sacramento, Indianapolis, San Diego and Seattle.

CBRE points out, however, that the type of distress opportunistic investors have to deal with in this recovery are different than in previous recessions. "Rather than focusing on half-empty assets, investors will need to solve the problems caused by under-capitalized owners," said CBRE, adding that re-pricing is investors' greatest opportunity for wealth generation in today's market.

Outside of distressed assets, CBRE said that there is investor demand for high-quality cash-flowing retail assets in the current market. "Stable neighborhood and community centers in fully developed neighborhoods will experience very little of the current pain in the market, particularly those with grocery and drug store anchors, said CBRE. Such centers up for sale will be able to hold strong on pricing, in contrast to centers on the "high-end of the market," added CBRE.

"From a total return perspective, the worst is behind the commercial real estate sector," said Serguei Chervachidze, Capital Markets Economist for CBRE. "Economic and financial factors will continue to put downward pressure on property values, resulting in negative returns in 2010. However, there are early signs of positive dynamics in asset values for some prime properties across the US, and we can foresee positive value growth resuming in 2011."

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FDIC Chief: CRE Delinquencies, Bank Failures to Keep Rising
FDIC 主席：商業貸款抵押證券拖欠率以及銀行倒閉的數量會繼續增加

FDIC Chairman Sheila Bair Asks for CMBS Industry's Help in Shaping New Securities Accounting Rules

By Randyl Drummer

Federal Deposit Insurance Corp. Chairman Sheila C. Bair said she expects that banks will see higher delinquency and charge-off rates on commercial real estate loans which will likely lead to escalating bank failures in coming quarters.

CRE credit issues are affecting both big and small banks, Bair said Wednesday in remarks at the Commercial Mortgage Securities Association's (CMSA) annual conference in Washington, D.C. Although community and regional banks have widely been reported as bearing the brunt of commercial defaults, noncurrent rates and charge-offs are in fact higher at banks with over $1 billion in assets, she said.

Commercial real estate loans backed by income-producing nonfarm, nonresidential properties or multifamily real estate totaled $1.3 trillion as of September, or nearly 18% of total loans and leases. Over the past year alone, noncurrent CRE loans on income-producing properties have risen by 250% to $44.8 billion, Bair said.

Meanwhile, banks and thrifts also hold almost $500 billion in construction and development loans. The third-quarter net charge-off rate of 6% on those loans on an annualized basis significantly exceeds the highest rate seen in the last economic crisis, which topped out at about 4%, Bair said.

"Excessive concentrations of credit risk, especially in construction and development portfolios, are contributing to the large number of bank failures and creating significant problems at institutions across the country," Bair said.

Guidance released by the FDIC and other regulators last month encourages banks to continue making loans to qualified commercial real estate borrowers and to work with borrowers that are having trouble modifying their loans due to the weak economy.

At the same time, banks must recognize losses when those workouts don't work out. Intense competition among lenders led to a "race to the bottom" in terms of risk management, resulting in loan terms that included "relaxed covenants, liberal interest-only periods, gracious interest reserves, extended maturities, non-recourse terms and very aggressive pricing," Bair said.

The FDIC expects banks to provide documented analysis of repayment capacity and collateral support, in addition to the borrower's ability to make timely payments.

While commercial loan terms need to be flexible to allow for competition with other lenders, "We do not want banks to compromise pricing, covenants, or other terms to meet loan production goals," Bair said. "In short, loan underwriting and administration deserve a much larger role in credit risk management going forward. Lenders need to embrace the lessons learned from this crisis."

The FDIC encourages institutions to implement prudent, loan workouts based on an updated picture of the borrower's financial condition. Examiners, meanwhile, are instructed to take a "balanced approach" in assessing an institution's risk management practices for workouts, Bair said.

"We feel that this measure -- which facilitates responsible workouts for existing loans -- can go a long way towards addressing the economic dislocations that are hurting small business borrowers and their lenders. These are solid

loan workouts that are based on the documented financial capacity of the borrower and the long-term prospects of the underlying project."

The other, and more complicated, side of the equation is securities reform. Although banks and thrifts still hold the largest share of commercial mortgage debt -- and their exposure to CRE loans stands at a historic high -- the FDIC chairman reached out to CMSA's members Wednesday, asking their input on how to reform rules that allowed runaway securitization to fuel much of the funding for the high-risk loans that helped precipitate the financial crisis.

The FDIC wants to facilitate reform through its powers to create "safe harbors" for certain financial assets. Currently, the agency is empowered to seize loans collateralized by asset-backed securities along with other assets of bankrupt banks. The FDIC is considering creating a permanent safe harbor that would protect securitized assets, including those backing high-quality loans, from seizure by regulators in the event of a bank failure as long as securities are accounted for as a sale and taken off the bank's balance sheet.

However, under changes approved last year by the Financial Accounting Standards Board, most securitizations will no longer meet the off-balance-sheet standards for treatment as a sale, Bair said.

In November, the FDIC board approved a transitional safe harbor protecting all securitizations in process through March 31, 2010, while the agency clarifies the circumstances in which it will treat new transfers of securities as a sale after that date.

"We need active involvement from your industry in spelling out the new standards that will qualify for the safe harbor under our final rule," Bair said.

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Large Loans Drive CMBS, CDO Delinquencies Higher
巨額貸款造成商業貸款抵押證券和債務抵押債券的拖欠率增漲

By Mark Heschmeyer

The transfer of large balance CMBS loans to special servicing continues to increase as commercial property performance declines, according to Fitch Ratings in the latest edition of What's in Special Servicing?.

An additional $1.2 billion of loans in Fitch-rated CMBS entered special servicing, with a high-profile hotel property in Washington, DC, among the new entries. The Renaissance Mayflower Hotel, a $217 million hotel transferred to special servicing on Nov. 6 for imminent default after the borrower indicated it would no longer be able to cover debt service.

This latest entry is in line with Fitch's expectations that retail and hotel properties will continue seeing the most adverse and immediate effects.

"Additional high-profile hotel properties transferring to special servicing are likely," said Adam Fox, a senior director at Fitch.

With the November increase, specially serviced loans now total 7.8% of Fitch rated CMBS.

Two other loans, which had previously been included as Fitch loans of concern, are now specially serviced: the DRA-CRT Portfolio, a $180 million loan secured by 16 office properties in three states; and Peter Cooper Village/Stuyvesant Town, a $3 billion 11,227-unit apartment complex in New York.

Three of the performing specially serviced loans included are General Growth Properties (GGP) loans; Ala Moana Portfolio, a $900 million loan secured by a retail and office development in Honolulu, HI; Providence Place Mall, a loan secured by a $258.5 million super regional mall in Providence, RI; and Woodbridge Center, a loan secured by a $206.1 million super regional mall in Woodbridge, NJ. Under terms of a recently announced settlement agreement between GGP and a group of special servicers and subject to bankruptcy court approval, the GGP loans will be extended to 2018, 2015 and 2014, respectively. Fitch expects the bankruptcy court to approve the proposed settlement at which time these loans will exit bankruptcy and return to master servicing within 60 days to 90 days.

Delinquencies for U.S. commercial real estate CDOs closed out 2009 with a two basis-point increase to 12.3%, according to Fitch. Accounting for previously delinquent loans written down or disposed of at a loss, the CREL CDO delinquency rate would have neared 15%, in line with Fitch's expectation for year-end 2009.

"A continued steady increase in delinquencies is likely for 2010," said Karen Trebach, a senior director at Fitch. "Fitch projects CREL CDO delinquencies to reach 25% by the end of the year."

New delinquencies were comprised of nine maturity defaults, four term defaults, five impaired CMBS, and eight repurchased assets. Repurchases consisted of four CRE loans and six CMBS assets. While two assets were repurchased at par, the remaining assets were purchased out of CDOs by asset managers at prices ranging from 88% of par for an A-note interest to 1.4% of par for a credit impaired CMBS interest.

The extension of 14 matured balloon loans helped keep overall delinquencies in line with last month's total. While one-third of these loans were granted only short term extensions to allow time for further negotiation; the majority of these extensions were multi-year with several loans receiving principal paydown and/or increased reserve postings among conditions to extension. Overall, there were 51 total extensions reported in December.

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Latest Residential Loan Rates [Slightly Higher than Last Week]
最新住宅地產貸款利率【比上周稍漲】

	Interest Rate	APR
Conforming and FHA Loans		
• 30-Year Fixed	5.125%	5.318%
• 30-Year Fixed FHA	5.500%	6.245%
• 15-Year Fixed	4.375%	4.700%
• 5-Year ARM	3.875%	3.564%
• 5-Year ARM FHA	3.875%	3.401%
Larger Loan Amounts in Eligible Areas – Conforming and FHA		
• 30-Year Fixed	5.250%	5.390%
• 30-Year Fixed FHA	5.250%	5.924%
• 5-Year ARM	4.250%	3.652%
Jumbo Loans – Amounts that exceed conforming loan limits		
• 30-Year Fixed	5.750%	5.895%
• 5-Year ARM	5.000%	3.930%