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D.C. Deal Flashes Foreign Capital

國外投資者以兩億美元收購首都華盛頓的寫字樓

By Maura Webber Sadovi (WSJ)

A group of wealthy investors represented by a unit of HSBC Holdings PLC has purchased a 90% stake in a Washington office building, in a further sign of the relative strength of the U.S. capital's office market and the dominant role foreign investors are playing as buyers of commercial property.

HSBC Alternative Investments Ltd. paid $203.4 million in debt and equity for 1625 I St., a fully leased 85,000-square-foot building about two blocks from the White House. The deal values the property at about $587 a square foot, one of the highest prices paid per square foot in Washington during the past 12 months, according to Real Capital Analytics, a New York real-estate research firm. The seller was Brookfield Properties Corp., which will retain a 10% interest and management responsibility for the building.

While the values of commercial real estate have fallen as much as 50% in some areas, the Washington office market has held up relatively well thanks to demand for space from government agencies and the Obama administration.

Office vacancies in the metro area rose to 14.7% in the third quarter from about 11.9% a year ago, but the levels were still well below the national vacancy average of 19.4%, based on the major U.S. markets tracked by Property & Portfolio Research, a unit of CoStar Group Inc. In addition, the rents landlords are asking for in Washington's central business district aren't expected to experience as drastic a decline as in some markets in the U.S., according to PPR.

"Washington has been the most consistently performing market in the nation for a long time," said Ric Clark, chief executive of Brookfield Properties, in an interview Monday. He said Brookfield is selling to shift capital from core assets into more opportunistic ventures like buying distressed property. "Any prudent asset manager doesn't buy, hold and die. They recycle capital," he said.

The HSBC deal also is the latest in a number of high-profile acquisitions of commercial properties in the U.S. by non-U.S. investors. While there were few big deals of any kind in 2009, many of the notable transactions were driven by foreign buyers. In September, DekaBank Deutsche Girozentrale paid $208 million for 1999 K St., a 12-story office building designed by Helmut Jahn and located in the central business district. And earlier this year HSBC was on the opposite side of the table when it sold its office tower in New York to Israeli investor IDB Group for $330 million. Swedish construction group Skanska AB also acquired a stalled office development near the White House for $85 million.

Mr. Clark said that Brookfield received five "strong offers" for the property as well as numerous other feelers. Of the five offers, three were from foreign investors. "There's a lot of capital around the world particularly in countries whose currencies have floated up versus the dollar," he says.

Brookfield purchased 1625 I St., known locally as Eye Street, in late 2003 for $157 million just as it was being completed by the Union Labor Life Insurance Co. At that time, it was about 50% leased, Mr. Clark says. HSBC's purchase of the 90% stake values the property at about $226 million.

Harry Heathcoat Amory, associate director of HSBC Alternative Investments Ltd., said the deal was the group's first direct property acquisition in the U.S. since it added its real-estate fund-management business about three years ago. HSBC Alternative invests in property on behalf of its private-banking clients, a majority of which are high net-worth individuals based in the Middle East, Asia and the U.K., though some also are in the U.S.

Mr. Amory said HSBC is looking at making more property acquisitions in Washington as well as other mature U.S. markets such as New York and Boston where new supply is constrained. "Those other markets are also places to look but Washington is the strongest office market in the U.S.," Mr. Amory said. "It's weathered the storm."

Mr. Amory said the deal, which included the assumption of about half the price in debt and the rest in equity, computed to a 7.5% capitalization rate, a measure of the property's income relative to acquisition price. Near the peak of the market, average cap rates were in the mid-5% range in the Washington area, according to Real Capital.

Michael Knott, a senior analyst with Green Street Advisors, said Brookfield agreed to the deal earlier in 2009 before the national economy and Washington office market had begun to strengthen. "Things have moved in sellers' favor since the deal was struck," Mr. Knott said. "My guess is if they had to do it over again, they would require higher pricing."

While foreign investors are interested in U.S. property, the volume of deals remains down sharply because of financing issues and the reluctance of most owners to sell when most markets are slumping. Last year, the total value of commercial properties sold to foreign investors and valued at $5 million or more fell to about $2 billion, down from $33.4 billion near the peak in 2007, according to Real Capital Analytics. The level was still a relatively small part of the $48.7 billion transactions completed overall in 2009.

Germany is among the leading foreign buyers of U.S. real estate while many Irish and Australian investors have become sellers, according to a report by Real Capital Analytics.

Foreign investors like to reduce risk by focusing on trophy buildings or occupying properties with strong architecture and long-term leases, said Andrew Weir, a managing director in Washington with Holliday Fenoglio Fowler. "There aren't a lot of deals that fit their parameters," Mr. Weir said.

HSBC, which has been in discussions with Brookfield about the property for about 12 months, was advised in the transaction by Edge Fund, a Washington real-estate-investment adviser. As the talks continued and the market improved, Mr. Amory said it became increasingly aware of the opportunity it had to buy a property as market sentiment was improving but while competitors that would have pushed up pricing remained on the sidelines. "The timing was spot-on," Mr. Amory said.

The building's largest tenant is the Washington office of the Los Angeles-based law firm O'Melveny & Myers.

Matter of Debate: Bottom in Commercial-Property Values
争論圍繞商業地產價格是否已觸底

By Christina S.N. Lewis (WSJ)

While the pace of commercial real-estate sales remains anemic, a few gutsy real-estate experts are saying prices have stabilized and are even, in some cases, rising from their lows of the recession.

Backers of this theory point to the loosening in the public capital markets, which has allowed dozens of real-estate investment trusts and to raise debt and equity financing to fix up their balance sheets. The bulls also say investors who had been sitting on the sidelines are becoming more active, especially foreign buyers like HSBC Alternative Investments Ltd., which is buying 1625 I St. in Washington D.C. in a deal that values the office building at a respectable $203.4 million.

But one major index shows values continuing to decline as of late last year. Market bears note that with unemployment high and rents and occupancies continuing to fall nationwide, values also have further to drop. Both sides agree that any real-estate recovery would be imperiled if interest rates rise significantly.

The differing opinions and cross-currents are a reflection of the moribund commercial real-estate market in which there are huge questions about the critical issue of property values because so few properties sold last year. Last year, there were only $54.4 billion in transactions, compared with $181.6 billion in 2008 and $557.8 billion in 2007, according to Real Capital Analytics.

Calling a recovery can be tricky. More than two years into the housing crisis, experts are still debating whether that market has hit bottom, despite signs of price improvement in some parts of the country.

Commercial real-estate values bottomed last May, according to a new commercial-property-price index designed by Newport Beach, Calif.-based Green Street Advisors. The index, which is based on their estimates of current REIT asset values and not actual transaction data, shows values are still down roughly a third from peak pricing in August 2007, but are up 9% from a May trough.

"If you asked anyone what would a property have traded for today versus what it would have traded for six months ago, the answer is clearly more today," said Mike Kirby, Green Street's founder.

But according to CBRE Econometrics Advisors, a research firm that relies on the NCREIF value index, prices have declined roughly 30% from their peak in the fourth quarter of 2007, but even though the speed of decline is slowing, they still have further to fall. NCREIF will release its data for the fourth quarter next week.

"We forecast that we're about two thirds of the way through," says Serguei Chervachidze, a capital markets economist for CBRE-EA.

The company believes that the value of office buildings will decline about 41% from its peak before recovering, industrial by more than half, retail will fall by about 30%, while multifamily-property prices will decline 40%, Mr. Chervachidze says. "It's like hitting the brakes on the car: You've put on the brakes but you're still going forward," he says.

Some investors believe that a survey-based price gauge gives a more real-time picture of the market, whereas transaction-based indexes lag behind the current market by as much as six months—the time it takes for a handshake deal to close and enter property records. On the other hand, others say that actual sales data is the only way investors can have confidence in pricing.

"The matter of rising property values is really theoretical at this point," said Anthony Paolone, a REIT analyst with J.P. Morgan Chase & Co. "The transaction volume is so minuscule, you don't have a good sense of how assets would trade."

Several gauges suggest that the pace of price declines has slowed. In October, the latest month for which such figures are available, the Moody's/Real Commercial Property Price Index declined 1.5% from September. By contrast, the index notched an 8.6% monthly decline in April. The index is based on repeat sales of the same properties across the U.S. at different times.

Stabilization in property values would be a huge relief to the commercial real-estate market because it raises hopes that investors may start putting money into the sector again.

To be sure, even if property prices have stopped tumbling, a vast number of commercial buildings will remain underwater, which means their loans are worth more than the property's value. That troubled debt totals hundreds of billions of dollars and sits like a time bomb on bank balance sheets and in commercial-mortgage-backed securities held by institutional investors.

Even bullish experts say that not all property types are showing resilience. The stabilization applies to only the top quartile of properties—fully leased buildings with steady rental income located in established markets. Such properties are often held by real-estate investment trusts, one reason that REIT stocks have surged 93% since their March 2009 lows. Meanwhile, projects under construction, buildings with lots of empty space or developments in emerging areas, are less likely to benefit from renewed investor confidence.

In December, J.P. Morgan Chase agreed to sell a partially leased lower Manhattan office building traded for $107 million, or $120 a square foot, according to company calculations, a dismal price reflecting the building's vacancy, need for renovations and non-prime location.

"[In general] I wouldn't say there's been any improvement in pricing for a property that isn't top-tier," says Robert M. White Jr., president and founder of Real Capital.

Pricing Upturn Seen in Retail, Apartment Sectors

購物商場和多戶型住宅價格在 **2009** 年第四季度稍微上揚

By RERC/CCIM Investment Trends Quarterly

Commercial real estate is positioning itself to be an attractive investment on a risk-adjusted basis in 2010 and 2011, according to the CCIM Institute and the Real Estate Research Corporation (RERC). Property prices in the retail and apartment sectors showed moderate increases in fourth quarter 2009, breaking the string of significant price declines throughout the previous 12 months.

"The latter part of 2008 and all of 2009 were definitely the shock years, and we're looking to 2010 as the recovery year," said Richard Juge, CCIM, the 2010 president of the CCIM Institute. "We will see more activity, perhaps not in gross dollar levels, but in the volume of deals that close in 2010. This is the time to buy."

Additionally, CCIM and RERC say that weighted average capitalization rates for the office, industrial, retail, and apartment sectors increased by 20 to 30 basis points in the fourth quarter.

"This is also part of the market re-pricing of risk, as cap rates expand to provide a more attractive income component to the investment," said Juge. "This is in contrast to the cap rate compression era several years ago."

The groups' RERC/CCIM Investment Trends Quarterly report also shows that 12-month trailing transaction volume increased slightly in the apartment and retail sectors, hinting that volume also may be starting to bottom out for these property types. However, transaction volume for the office and industrial sectors continued to decline, but at a much slower rate in the fourth quarter than in the previous three quarters.

"We keep searching for a bottom on prices, but it is an uneven landscape depending on the property type and investor willingness to mark-to-market their properties," said Kenneth Riggs, CCIM, president and CEO of Real Estate Research Corporation. "But we are seeing a more consistent environment where there is the beginning of a ground swell to sell assets for either strategic reasons or the asset is being sold under a distressed sale scenario. It is all about taking your medicine to get an asset price that will trade in this environment."

"This is the first step toward recovery, and the market is ready to move on and prepare for the next phase, which is capital moving in to buy attractively-priced quality commercial real estate assets. We are glad to see the shift occurring, because for many it has been a decade from hell riddled with euphoric highs that closed out with below-the-basement prices," said Riggs.

About the Survey

Published quarterly, the RERC/CCIM Investment Trends Quarterly report provides timely insight into transaction volume, pricing, and capitalization rates for the core income-producing properties. The RERC/CCIM Investment Trends Quarterly is produced by the Chicago-based Real Estate Research Corporation (RERC) in association with and for members of the Chicago-based CCIM Institute.

About CCIM Institute

Since 1969, the Chicago-based CCIM Institute has conferred the Certified Commercial Investment Member (CCIM) designation to commercial real estate and allied professionals through an extensive curriculum of 200 classroom hours and professional experiential requirements. Currently, there are more than 9,000 CCIMs in 1,000 markets in the U.S. and 31 additional countries. Another 7,000 practitioners are pursuing the designation, making the institute the governing body of one of the largest commercial real estate networks in the world. An affiliate of the National

Association of Realtors®, the CCIM Institute's recognized curriculum, powerful technology tools, and networking programs impact and influence the way CCIM members do business.

In a Surprise, Office Market Posts Unexpectedly Good Results
2009 年第四季度寫字樓的空屋率出乎意料地減少

By Mark Heschmeyer (CoStar)

Even though the overall number of U.S. jobs continued to disappear through December of last year, the U.S. office market unexpectedly posted positive net absorption for the quarter.

The most likely explanation is that jobs in the office sector increased. According to federal government jobs data, office sector employment increased for the fourth consecutive month in December, increasing by 48,000 jobs. Even the financial sector posted its first increase in employment since July 2007 adding 4,000 jobs in December. Since the end of August, office-using employment is up 154,000 jobs.

"This is simply the most important news in the office market in the last 18 months and that has set the potential for recovery in the office markets." said Andrew C. Florance, founder, director, president and CEO of CoStar Group Inc. in his surprisingly upbeat quarterly assessment of the U.S. office market this past week.

CoStar data shows a concurrent increase in total leasing activity last year. Gross leasing activity increased from about 60 million square feet of activity in the first quarter of 2009 to what is expected to be more than 90 million square feet in the fourth quarter.

The U.S. office markets posted about 6 million square feet of positive net absorption, Florance reported in CoStar's quarterly State of the U.S. Office Markets webinar. And the return to positive absorption came about two quarters earlier than expected due in part to the better than expected labor numbers, Florance added.

Florance stopped short of calling the results a rebound and referred to it as "a cessation of bad news" and told listeners not to expect a return to big gains in net absorption anytime too soon.

In its 2010 Predictions presented this week, CoStar subsidiary PPR (Property and Portfolio Research), echoed that theme and warned that the market could still see negative net absorption.

"While the economy appears to be stabilizing, it will take a while for this to flow through to the office market," Josh Scoville, director of strategic research and editor of the report wrote. "Due to the lag between GDP growth and hiring, this property type has the longest lag between economic improvements and an increase in demand. PPR does not anticipate a resumption of job growth at the national level until the second half of 2010, and the recovery will be tepid at first. Although things should start looking up in the latter half, expect net negative absorption in 2010."

The modest fourth quarter bump in absorption helped the national vacancy to level at about 13.1%, Florance said. However, the total office space availability rate was still increasing and was approaching almost 18%. Florance said this additional supply of under-utilized space is going to mute any dramatic increase in positive absorption in the short-term.

Another downside CoStar reported in its analysis is that office rents will continue to fall even as demand might be stabilizing.

This was a rough year for office landlords, PPR reported, as asking rents declined by nearly 10% on average.

"While landlords in some markets (such as New York, San Francisco, and Orange County) have been quick to lower rents, most have been holding out on face rents as much as possible and relying more on concessions to get tenants in the door," PPR reported. "But this will not last forever, and as office owners come to terms with reality in 2010, asking rents will be slashed. As distressed assets are scooped up, new owners with lower debt obligations will be able to undercut the competition, pulling down market rents."

While nationally office markets showed positive net absorption, regionally, there were big differences. The Northeast states lead the nation with about 4.8 million square feet of positive net absorption. New York City posted 1.6 million square feet; Philadelphia 900,000 square feet; Northern New Jersey, 600,000 square feet; Long Island, a half of million.

Across the country on the West Coast, though, Orange County California posted negative net absorption of 1 million square feet; and San Francisco, 900,000 square feet. Washington, Oregon and California combined had negative net absorption of about 2.1 million square feet.

Atlanta with negative net absorption of 500,000 square feet brought down the Southeast's numbers. The Southeast states posted about 11,000 square feet of negative net absorption in the fourth quarter; that compares to positive net absorption of more than 5 million square feet in the third quarter.

Minneapolis with 400,000 square feet of positive net absorption carried the Upper Midwest to a net gain of 436,000 square feet; and the Mountain West states showed 778,000 square feet of net absorption, led by Denver with 600,000 square feet of positive net absorption.

Washington, DC, with 900,000 square feet of positive net absorption carried the Mid-Atlantic region and boosted positive net absorption in that region to 1.35 million square feet.

The Midwest states had a net loss in occupancy of 527,000 square feet. Detroit alone posted a negative 1.6 million square feet of net absorption.

Home Builders Expect Construction Recovery
住宅建造商預計新屋建造將復蘇
【今年預計建造 **610,000** 棟獨立住宅，比去年增長 **38%**】
By James R. Hagerty and Dawn Wotapka (WSJ)

LAS VEGAS—Housing construction is expected to rebound this year from the severely depressed 2009 level, but the market remains fragile as foreclosures continue to rise.

Builders are likely to start construction on 610,000 single-family homes this year, up 38% from last year, according to David Crowe, chief economist for the National Association of Home Builders, which is meeting this week for its annual convention. That forecast assumes that the total number of U.S. jobs will start growing again in the second quarter. Housing starts would remain far below the 2005 peak of 1.7 million.

Mr. Crowe cautioned that the housing market remains tenuous, partly because foreclosures are still increasing, job growth this year is likely to be tepid, and builders are having trouble getting credit.

The convention drew more than 50,000 builders, suppliers and other participants, down from more than 60,000 last year and 140,000 in 2007, a spokeswoman for the home builders said. Many suppliers were touting energy-efficient products rather than glitzy décor. "The builders here are the survivors," Mr. Crowe said.

Less than three miles from the convention, around 60 people perched on folding chairs in a parking lot to bid on foreclosed homes, a daily feature of the Las Vegas market. About 60% of Las Vegas home sales in December were foreclosed properties, according to the Greater Las Vegas Association of Realtors.

Many builders are focusing on low-cost homes to compete with foreclosures. In Las Vegas, the typical new house from KB Home is priced in a range of about $150,000 to $170,000. Four years ago, typical new homes in Las Vegas were in a range of $400,000 to $550,000.

Frank Nothaft, chief economist at the government-backed mortgage investor Freddie Mac, said the percentage of people who are behind on their mortgage payments probably won't peak until the second half. As of Sept. 30, about 14% of American home-mortgage borrowers were at least 30 days behind on payments or in foreclosure, according to the Mortgage Bankers Association.

John Burns Real Estate Consulting, an Irvine, Calif., firm that advises home builders, said sales of new homes and visits from potential buyers have picked up in recent weeks after a lull in last year's final quarter.

Many builders are starting the year with low inventories of completed homes, the firm said. That should spur building in the months ahead as builders seek to have houses ready for people who want to make purchases before the April 30 deadline to qualify for a tax credit for home purchases.

It's Not 'If' Interest Rates Will Rise But 'When,' Says Real Estate Center Chief Economist
當政府停止購買房貸抵押證券，利率就會上漲

By Real Estate Center at Texas A&M University

Mortgage interest rates are low right now, but don't expect that to last. When the government quits buying mortgage-backed securities, rates will head up and away.

Dr. Mark Dotzour, chief economist for the Real Estate Center at Texas A&M University, explained why mortgage rates were so low at the end of 2009.

"First, the global consensus among bondholders appeared to be that inflation will remain low in the United States for an extended period. This caused the ten-year U.S. Treasury rate to fall to between 3.2 and 3.6 percent for much of the second half of 2009."

With extraordinary levels of federal deficit spending, Dotzour said it is unlikely that the low-inflation scenario will be popular when the economy starts to rebound. Consumers should expect mortgage rates to rise when signs of improvement appear.

A second factor contributing to the low mortgage rates is the Federal Reserve Bank's unprecedented purchase of nearly all the mortgage-backed securities issued by Fannie Mae and Freddie Mac in 2009, he said. Totaling more than $1 trillion for the year, this program has been extended through the end of March 2010.

"The Fed has never done this before in its history," said Dotzour. "They are doing this to stimulate the economy by keeping mortgage rates as low as possible. When the Fed stops buying these securities from Fannie and Freddie, mortgage rates are likely to increase, possibly quite abruptly."

How far will rates go up when the Fed terminates its buying program? Dotzour said that question is difficult to answer precisely because this has never been done before. But many experts think that rates could move up one-half to 1 percent.

"The combination of extraordinarily low mortgage rates and current price levels are making homes extremely affordable to American families. In fact, national and Texas housing affordability indices indicate that homes are more affordable than ever. But this will not last. When the economy recovers and the Fed stops purchasing mortgages, rates will rise."

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

	Interest Rate	APR
Conforming and FHA Loans		
• 30-Year Fixed	5.000%	5.191%
• 30-Year Fixed FHA	5.500%	6.245%
• 15-Year Fixed	4.250%	4.573%
• 5-Year ARM	3.875%	3.564%
• 5-Year ARM FHA	3.875%	3.323%
Larger Loan Amounts in Eligible Areas – Conforming and FHA		
• 30-Year Fixed	5.125%	5.264%
• 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%