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## **Builders Start to Look Up**

### 住宅建築商前景開始好轉

*By Paul Vigna and John Shipman (WSJ)*

Home builders are looking a lot less bad. And that's good. Fewer write-downs and new-home order cancellations along with improved order rates are some of the most positive signs from home builders since the housing market began to roll over four years ago.

Aside from the nation's banks, no industry was humbled by the recession quite as much as home builders. But, similar to the banks, builders got a lot of support from Uncle Sam, which has helped some recently return to profitability. Supports such as the first-time home-buyer tax credit, longer tax-loss carry-backs as well as huge write-downs in land and inventory values, have allowed builders to, for lack of a better term, rebuild themselves. Many are leaner, and less burdened with debt, which should enable them to turn reliably profitable once the economy improves.

The 14 publicly traded home builders have written off an aggregate \$33.65 billion since the first quarter of 2006 through the end of 2009's third quarter, according to Moody's Investors Service senior credit officer Joseph Snider.

### **New-Home Orders Rise**

Beazer Homes USA Inc. said Friday fiscal first quarter new-home orders rose almost 37% to 728, and its cancellation rate fell to 27% from 46% a year earlier. The company's quarterly tax benefit was \$101 million, helping Beazer post a \$48 million profit. Impairments were \$8.8 million versus \$12.4 million last year.

"We cannot say that the impairment cycle is done," Beazer Chief Financial Officer Allan Merrill said, "but we can say that improving absorption rates and firming prices are currently reducing the probability of significant additional impairments."

D.R. Horton Inc. last week booked a \$149.2 million tax benefit in its fiscal first quarter, helping it post a \$192 million profit after losing \$62.2 million a year earlier. The company also posted a 45% increase in new orders, and its cancellation rate fell to 26% from 38% a year ago. Pre-tax charges for inventory impairments and write-offs fell to \$1.2 million, compared with \$56.2 million in the year-earlier quarter.

### **Company Expectations**

D.R. Horton Chief Financial Officer Bill Wheat said the company expects fiscal 2010 impairments to be "substantially lower" than 2009's.

Pending homes sales last week came in higher than expected, but any continuing improvement for the builders obviously hinges on matters largely out of their hands. And given Friday's January jobs report, it may be some time before those matters turn in their favor.

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"You have to have job growth in the economy, and there is obviously no job growth to speak of today," D.R. Horton Chief Executive Donald Tomnitz said last week.



## Hotels Poised for Picking?

### 私人投资基金與公司準備投資酒店

*Investors Appear Poised To Take Advantage of Opportunities in the Distressed Hotels Arena This Year*  
By Mark Heschmeyer (CoStar)

Private equity firms and corporations seemed poised to take advantage of opportunities in the distressed hotels arena this year.

In the past week, an affiliate of Lone Star Funds agreed to acquire Lodgian Inc. for \$270 million, including assumed debt. And separately, at least two hotel operating companies announced plans to ramp up their acquisitions this year. Lodgian is one of the nation's largest independent hotel owners and operators. The company currently owns and manages a portfolio of 34 hotels with 6,401 rooms in 20 states. Lone Star will acquire all of the outstanding common stock of Lodgian for \$2.50 per share in an all-cash transaction. The price represents a premium of 67.2% over Lodgian's average closing for the past month. The transaction is expected to close during the second quarter of 2010.

In Washington, DC, CapStar Hotel Company LLC announced that it will ramp up its acquisition program this year. "We have been concentrating on renovating, repositioning and asset managing our current three-hotel portfolio, waiting for the operating fundamentals to recover, the credit markets to open, and acquisition activity to pick up," said Paul Whetsell, president of CapStar. "We believe we are transitioning into that phase now, and while it is difficult to pinpoint timing, we expect to see more attractive opportunities in the coming months."

The company has promoted Gary Klett to vice president of development to head up the initiative. He will be responsible for sourcing, negotiating and closing transactions. "We are focusing on upscale, branded and independent hotels with the potential to operate as a 3.5- to four-star asset, with a particular focus on life-style properties, ranging in size from 150 to 500 rooms," Klett said. "We are looking primarily in the major urban markets in the U.S. and Canada, where barriers to new competition are high."

In Houston, Wedge Real Estate Holdings Inc., with diversified holdings in hotels, offices and self storage properties, announced it plans to intensify its investment activities in the hotel industry. It appointed veteran hotel industry leader Brian Stage as president and CEO of the Wedge Hotels Corp. "The company's financial strength and commitment to grow present an exciting opportunity to expand this business at an opportune time in the economic cycle," Stage said. "Our goal is to double the size of the current Wedge hotel portfolio in the next two years and triple it by 2013." Stage said that he is actively seeking hotel investment opportunities in the Northeastern United States and Texas, where the company already has assets, and that he will seek acquisitions in other parts of the country that enable Wedge Hotels Corporation to develop properties in geographic clusters.

The outlook for 2010 is still somewhat of a topic for debate, though, with some industry prognosticators projecting continued declines in transactions.

"The lending community has reached the stage where they no longer can delay foreclosure issues," said Chad Crandell, president of Capital Hotel Management, a hotel asset management and investment advisory firm in Beverly, MA. "We certainly will see more foreclosures in 2010 than any year since the RTC days of the early nineties." As the number of distressed hotel assets continues to rise, many with foreclosure eminent, an increasing number of hotel lenders will be transitioning to a much more active ownership role within an extremely stressed environment, Crandell said. The current lack of available financing, coupled with a continued decline in performance projected for at least the first half of 2010, could likely push the transaction window well into 2011 or 2012.



## **Battered Industrial Property Sector Poised to Resume Growth**

雖然空屋率依然持高，工業倉庫買賣與租賃開始增長

*By Randyl Drummer (CoStar)*

The amount of empty warehouse, distribution and flex space hitting the market contracted again sharply in the fourth quarter, and CoStar analysts say industrial real estate appears poised to join office and some retail categories in returning to positive net absorption.

While stubbornly high, industrial vacancies are flattening. Leasing activity is starting to pick up nationally and, unlike previous downturns, the market is not plagued by an overhang of new supply. Sale prices also appear to have hit bottom as buyers and sellers begin to come to terms with losses inflicted by the recession and the bursting of the real estate bubble, according to the Year-End 2009 Industrial Review, the third and final installment of CoStar Group, Inc.'s "State of the Commercial Real Estate Industry" webinar series.

Jay Spivey, Senior Director of Research and Analytics for Bethesda, MD-based CoStar, was joined on a panel by noted commercial real estate analysts and commentators Norm Miller, Vice President of Analytics for CoStar; and Hans Nordby, Global Strategist for Property & Portfolio Research, (PPR) Inc., CoStar's forecasting and analytics subsidiary.

The market improvements are unfolding against a backdrop of an increase in general economic activity for the manufacturing and industrial sectors. Gross domestic product (GDP) grew a faster-than-expected 5.7% in the fourth quarter, eclipsing forecasts of 4%, in part due to the impact of government stimulus dollars and the need to replenish depleted inventories. Miller expects GDP growth of around 4% for the first two quarters of 2010. Boosts in industrial production and corporate profitability will eventually lead to jobs and renewed investment and expansion by companies, whetting the demand for space.

The latest survey of manufacturing by the Institute for Supply Management released Tuesday offered some timely good news for the manufacturing and logistics industries. The Purchasing Managers Index (PMI) jumped 3.5 points to 58.4 in January. Such high PMI numbers typically point to sustained and solid GDP growth. "This kind of confidence is a really good signal for the economy," Miller said.

One caveat, cautioned Nordby of PPR, is that inventories continue to fall. "If you're falling down a flight of stairs and your velocity decreases by the time you get to the bottom, you might not necessarily feel better," Nordby noted. "Inventories really haven't gotten better; they're just not falling as fast."

Retail sales, which drive part of the demand for end-users of warehouse and distribution facilities, appear to be picking up after bottoming late last year. But consumer confidence won't fully return until housing prices fully reach bottom across the country, and foreclosures and REOs are expected to peak around midyear, Miller said.

Despite signs of progress, the current recovery is clearly slow relative to those following past economic down cycles -- unsurprising given the depth of the most recent recession and financial crisis.

"If you look at the year-one and year-two GDP levels, we're not nearly where we were at the same time in past recoveries," Spivey said.

Jobs continue to lag and the U.S. could finally reach 2000's level of total employment later this year. However, industrial property, especially the automation-rich warehousing and distribution sector, isn't as exposed to job



growth and loss, compared to, for example, more densely occupied office space. That said, temporary employment is rising across the board, and that should be followed by an increase in permanent jobs within a quarter or two.

In reviewing a grid ranking the short- and long-term economic prospects of major U.S. markets based on employment growth, the three panelists noted the prevalence of strong long-term job markets crowded with cities in Texas, Florida and Georgia. Houston, in particular, is leading the charge, with its growing population and energy sector and low business costs, Nordby said. Cities such as Detroit and Cleveland will likely continue to struggle due to weakness in the domestic auto and manufacturing industries.

Despite the visible signs of improving conditions in Texas and other sunbelt markets, the economy still faces a list of economic challenges. Distressed sales are increasing and will likely continue to tamp down rents, though industrial is faring better than other product types, Miller said. Credit remains tight even though banks are cautiously starting to lend again and many properties are saddled with very oppressive loan-to-value ratios. Fending off inflation and rising interest rates will be an increasingly difficult task for financial and monetary policy makers and regulators.

However, year-end metrics show that industrial fundamentals may be ticking upward, or at least, in the words of CoStar's analysts, becoming "less bad."

#### **Leasing and Absorption**

Although leasing activity was soft in 2009, it's down less than 20% from the previous year -- not a dramatic drop -- and has risen for three consecutive quarters, Spivey said. "Leasing is starting to pick up and it's relatively stable compared to sales activity. Deals are happening and renewals are occurring."

Industrial players will not so fondly remember last year and late 2008 mainly for the massive 200 million square feet of negative net absorption in warehouse, flex and other industrial space piled onto the market over the last five or six quarters. That compares to about 70 million square feet during the market downturn 10 years ago, which was accompanied by the collapse of tech and Internet commerce companies.

Only one major market, Houston, posted positive absorption at an anemic 1.8 million for 2009. Markets that saw huge increases in negative absorption included Chicago (-19.2 million SF), the San Francisco Bay Area (-11.6 million SF), South Florida (-11.4 million) and Los Angeles (-9.4 million).

But those numbers don't tell the whole story. The fourth quarter's 12 million of negative absorption is much lower than the minus-37 million square feet posted in the third quarter, negative-58 million square feet in the second quarter and -47 million in the first quarter. PPR forecasts that absorption will turn positive this quarter for the first time since third-quarter 2008 with a modest 13 million square feet. That should be followed by steady absorption growth, peaking at a projected 68 million square feet in mid-2012.

A look at fourth-quarter absorption numbers for various individual markets shows the upward trend. Although quite modest, seven markets saw positive absorption, led by Philadelphia at 3.9 million square feet. The other six markets all posted essentially flat absorption of 600,000 square feet or less, including Cincinnati, Houston, Cleveland, the Inland Empire in inland Southern California, and Los Angeles.

"But the tide does appear to be turning. The office and retail sectors saw positive absorption in fourth quarter and it appears industrial is headed in the same direction but with a little bit of a lag," Spivey said.

#### **Construction/Development**



Just 0.5% of new supply was added to the national industrial inventory in 2009, far lower than the 1.7% in new supply added to the market on average over the last 50 years. Extremely low deliveries and construction starts will persist through 2010, with only Houston, Dallas/Ft. Worth, Inland Empire, CA and Philadelphia delivering any appreciable new space. Detroit, Cleveland, Los Angeles, South Florida and Chicago will see very little new development.

Bottom line is, "Supply won't be an issue in industrial until late 2011 or 2012 at the earliest," Nordby said. "This level of construction doesn't even come anywhere close to making up for routine functional obsolescence and demolitions. In fact, we're modeling negative supply in many markets."

#### **Vacancy/Availability**

Companies shedding space drove the national vacancy rate to 10.3% in the fourth quarter, up from 7.5% at the market peak two years ago. Availability, which includes space that may not yet be vacant but is on the market, rose to 14.6%, up from just over 10% two years ago.

The widening gap between vacancy and availability rate bears some reason for caution, but "we believe we're at or near the peak on vacancy due to the lack of new supply and positive absorption" in supply constrained markets like Long Island and Los Angeles and past over-developed markets like Inland Empire and Dallas, Spivey said.

The upside is that vacancies and reduced rents are driving stepped up leasing activity in markets like San Francisco.

#### **Investment Sales**

Although overall industrial investment sales volume is down 54% from the 2007 peak, prices are finally adjusting to the lower LTVs and tighter underwriting that have driven overall industrial cap rates up from 6.7% in 2007 to 8.9% in fourth-quarter 2009. Most of that cap rate expansion occurred during 2008 and was fairly flat in 2009.

Industrial prices adjusted for inflation have plunged 33% since the market high of \$90 per square foot in 2007, and have fallen past the historic average in 1995 of \$63 per square foot. Fourteen of the top 20 industrial markets took double-digit losses in per-square-foot sales prices in 2009 compared with the previous year. CoStar's analysis of repeat industrial sales, meanwhile, found some price strengthening, with the trough reached late last year.

"It looks like we're close to equilibrium now in terms of the prices investors are willing to pay relative to the rent," Miller said. "Sales prices are very likely near bottom for non-distressed industrial property, but we will likely see a scattering of distressed sales occur at a discount to the mortgage balance. It will be important to distinguish the type of sale when analyzing average prices for industrial, as well as all property types."

Industrial owners appear to be somewhat more insulated from distress than holders of other property types, particularly apartments and office buildings. About 15% -16% of overall CRE sales are currently considered distressed, Nordby said. However, only about 8% of industrial sales are made under distress, the lowest among major property types.

REITs such as industrial giants ProLogis and AMB, along with institutional investors were net sellers of property in 2009, while opportunity funds and other private equity trying to take advantage of distressed assets were buying. Falling prices and narrowing bid-ask spreads are also luring owner-users and other private parties to jump in, Miller added.



## Forecasted Growth in Retail Franchise Stores May Fuel Demand PricewaterhouseCoopers 預計今年會增加 11,000 多個加盟店

By Sasha Pardy (CoStar)

Where will demand for retail real estate come from in 2010? One area increasingly viewed as a potential source is franchise operators. Pricewaterhouse Coopers forecasts that approximately 11,100 new franchised retail stores are expected to open across the country this year.

The International Council of Shopping Centers (ICSC) recently formed a new strategic partnership with the International Franchise Association (IFA) and urged ICSC members to cooperate and form relationships with franchisees and franchisors active in their respective markets.

Explaining why he believed such a partnership is essential to those working in the retail industry, IFA President and CEO Matthew Shay said, "Franchise businesses need retail space and retail centers need occupants, so helping our members connect with real estate experts will help more franchise businesses expand." ICSC President and CEO Mike Kercheval said the partnership with IFA is not only very timely, but necessary given the increased amount of available space at shopping centers during the recession.

Kercheval said that both franchisees and retail real estate brokers could benefit from sharing their expertise and resources with each other. IFA past chairman, Lawrence Cohen, owner of more than 30 franchise units commented, "Having good information about the real estate industry and developing solid relationships in this sector is a critical component of any franchisee's success."

To help foster new relationships between franchisees and retail real estate execs, the two trade associations are planning to hold three educational sessions -- the first will be a real estate strategy session at the IFA's 50th Annual Convention in San Antonio; then the IFA will conduct franchise education sessions at ICSC's Executive Learning Series in New York in April, as well as during ReCon in May. The sessions are expected to encourage landlords and brokers to form relationship with multi-brand and multi-unit franchisees and franchisors, and franchise operators will give the retail real estate community pointers on what particlaur franchisees are looking for in terms of selecting retail locations.

John Bemis, Director of Leasing for Jones Lang LaSalle Retail, said, "While it won't be a spike, I definitely think we will see increased franchise activity this year, with even more growth following in 2011."

Bemis told CoStar that a program JLL launched in the middle of last year to work with certain franchisors in identifying and marketing pre-approved sites has worked well, accounting for at least 10 new store openings in its portfolio of retail space since, with more new units in the pipeline.

Giving an example, Bemis said that JLL works with Nexcen Brands (Maggie Moo's, Marble Slab Creamery, Pretzel Time, Great American Cookie, Athlete's Foot, and Shoebox) to pre-approve sites. For those selected spaces, JLL would put up a window sign on the store indicating the site is pre-approved for the specific franchise concept and providing contact info for the interested party to inquire. "It plants a seed for that person interested in owning a business and opening a store. It's the power of suggestion," said Bemis, adding that this method also speeds up the store opening timeline for all parties involved.





In addition, JLL has held franchise shows at many of the malls it leases and manages. "Several of the malls held franchise shows where they invited local franchisors to set up in the mall to advertise and solicit business from the local community. To draw people to the shows, the franchisor(s) would advertise to the local community for people interested and they would come. Mall managers report good turnout and positive results," said Bemis.

He added that property owners and brokerage firms can be proactive with franchisors to get their sites considered by franchisors' corporate real estate and franchise development personnel. On a regular basis, JLL holds meetings in which a franchisor would present its various franchise brands and preferred markets / site criteria to JLL leasing agents across the country. Then, leasing agents would identify locations that are a match and present those sites to the franchisor's real estate department.

In any case, Bemis said that it is always in a retail leasing agent's best interest to stay in front of franchisors' corporate real estate personnel. "Franchisors will share their site selection criteria, target markets and other requirements with agents," said Bemis. He added that ICSC's annual convention in Las Vegas and other major regional shows present some of the best opportunities to meet franchisors and learn about their requirements.

While franchisees typically lack the A-quality credit that some national and regional chains can offer, Bemis explained why franchisees should be valued as potential tenants in shopping centers.

"Typically in the franchise world, the operations are owner-operated. They are often times among your best tenants in a shopping center. They are present, it is their livelihood, they are fully invested in the store and their center. That's vital. When you're invested, not only financially, but emotionally, you do everything necessary to make that entity run as great as it can," he said. Additionally, franchisees are typically the tenants that will make more effort to help the center succeed...cooperating with advertising and events, etc. "They have a very vested interest in what goes on. They're keenly aware," added Bemis.

Franchisors JLL is currently working with to find space across the country include Nexcen Brands, Yum! Brands (Pizza Hut, Long John Silver, KFC, A&W, Taco Bell), Cinnabon, Subway, Auntie Anne's, Blimpie, Flamers, Glamour Shots, Nathan's, Rocky Mountain Chocolate Factory, Quiznos, Chick-fil-a, Great Steak, Thirsty's, Buffalo Wild Wings, and more.

#### **Franchise Unit Growth Statistics**

Pricewaterhouse Coopers (PwC) is forecasting 2.6% net growth in the number of new retail franchise establishments this year. If realized, such growth would far exceed the small 0.6% growth in retail franchise establishments recorded 2009; but would still pale in comparison to the 4.6% rise in establishments recorded in 2008.

The following list details PwC's 2010 forecast by retail franchise business line:

- Quick Service Restaurants: PwC forecasts the net opening of 5,759 new franchise units during 2010, representing a 3.1% increase over 2009. For more coverage on restaurant franchise growth, follow this link.
- Retail Food: (Includes food and beverage stores, convenience stores and retail bakeries) PwC forecasts the net opening of 1,692 franchise establishments during 2010, representing a 2.4% increase.
- Retail Products & Services: (includes furniture and home furnishings stores, electronics and appliance stores, building material and garden equipment and supplies dealers, health and personal care stores,



clothing and general merchandise stores, florists and gift stores, consumer goods rentals, photographic services, and book and music stores) PwC forecasts a 2.3% net increase, or nearly 2,000 net new stores to open in 2010.

- Table / Full Service Restaurants: PwC forecasts the addition of 1,017 net new franchised restaurants during 2010, representing a 2.1% increase.
- Automotive: (includes auto parts and supply stores, rental and leasing stores, and repair stores) PwC is forecasting a 1.8% increase in 2010, representing the net addition of 694 units.

The addition of this many new franchise units to the retail landscape in 2010 could have a significant impact on the economy. PwC estimates that if this 2010 forecast is realized, new retail franchise establishments would generate \$11.1 billion in net new economic output and add 43,000 net new jobs.

A Franchise Business Leader Survey recently conducted by the IFA, which surveyed franchise executives representing all types of franchise business lines, supports PwC's findings, indicating optimism for growth amongst franchisees. Specifically, 78% of respondents said they plan to add new franchise units in 2010, while 72.5% are counting on a rise in same store sales.

In its 2010 forecast, industry research service, FRANData said that in part, forecasted growth in new franchise units opening is in part driven by the unemployment rate. The rise in unemployment during 2009 has translated into a significant increase in the pool of potential quality franchisees. FRANData added that franchisees are also finding a larger pool of attractive new unit site opportunities in today's market.

While the opening of thousands of new franchised stores is likely in the cards for 2010, FRANData, quells some excitement. In its 2010 forecast, FRANData said that while more franchisees are planning to add new units in 2010 than are not, bringing these plans to fruition may be problematic, as access to capital will continue to be restricting throughout the coming year.



## **Movie Gallery Files Bankruptcy, Closing More Than 800 Stores**

### **Movie Gallery 宣佈破產，即將關閉 800 多家店**

*By Sasha Pardy (CoStar)*

Late Tuesday night, the country's second largest movie rental chain, Movie Gallery, brought to fruition circulating rumors that it would file Chapter 11.

Like most retailers, Movie Gallery was hit hard from lack of consumer demand during the recession, but in addition, it has been struggling to keep its foothold in a marketplace where consumers can rent movies through so many other outlets -- from mail order to kiosks and direct downloads. On top of this, Movie Gallery is underwater with more than \$540 million in debt that was primarily created from its 2005 acquisition of Hollywood Entertainment Corp, which it acquired for \$800 million.

This is the second bankruptcy filing for Movie Gallery. The retailer first filed Chapter 11 on October 16, 2007 when it operated 4,430 stores. In May 2008, Movie Gallery emerged from bankruptcy much lighter -- with 3,300 stores.

Since, Movie Gallery has closed another 700 stores; as it reported in Tuesday's Chapter 11 filing that it currently operates 2,600 stores under banners Movie Gallery, Hollywood Video and Game Crazy. Of these stores, 184 are operated by Movie Gallery Canada, which has been excluded from this bankruptcy filing. Movie Gallery reported \$1.4 billion in annual revenues (down from \$2 billion in 2008) and said 19,082 people are employed by the company.

As part of its reorganization efforts, **Movie Gallery has requested the cancellation of 856 store leases.**

Gordon Brothers Group has been selected to help liquidate the retailer's closing stores.

On February 4, Movie Gallery received court approval to have DJM Realty assist the company in evaluating and renegotiating the retailer's current leases. Additionally, the court approved Gordon Brother Group to handle Movie Gallery's store closing sales at 760 stores.

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.



## Optimism Trumps Gloom at MBA Real Estate Finance Conference in Glitter City

上周的美国抵押贷款银行家协会會議中樂觀多過沮喪

*Mortgage Bankers Release Reports on Loan Maturities and Volumes, Press for Extension of TALF*

*By Randyl Drummer (CoStar)*

More than 2,000 commercial and multifamily real estate professionals attended the Mortgage Bankers Association's four-day Commercial Real Estate Finance/Multifamily Housing Conference, which wraps up Thursday in Las Vegas.

Despite a recession and slow recovery that has stunted commercial and multifamily transaction activity by 84% since 2007, conference attendance is higher than projected and better than last year, with attendees "looking forward to 2010 being a better year," Rob Story, Jr. MBA chairman, told reporters Tuesday.

Among the centerpieces of the conference was the MBA's release of its annual survey of loan maturities, the Commercial Real Estate/Multifamily Survey of Loan Maturity Volumes. This year's survey showed that volume of commercial and multifamily mortgage debt maturing in 2010 and 2011 is relatively low, with only 13% of the \$1.45 trillion balance of outstanding mortgages held by non-bank investors such as life insurance companies, the Fannie Mae, Freddie Mac or FHA agencies, or fixed-rate commercial mortgage backed securities (CMBS) coming due this year. Another 7% matures next year.

"The fact that a disproportionate share of commercial and multifamily mortgages were made in 2005, 2006 and 2007 means that, for most investor groups, only a fraction of the balance will be maturing in the next couple of years," said MBA Vice President of Commercial Real Estate Research Jamie Woodwell.

Despite the lower percentages, that still represents more than \$282 billion in loans coming to maturity this year and next, the bulk of them in 2010. Greater shares of mortgages held in short-term and floating-rate CMBS and by credit companies, warehouse facilities and other investors will also mature in 2010 and 2011.

However, CRE mortgages tend to be 10 years or longer, with many loans having built-in extension options -- and considerable discretion by lenders and servicers in dealing with borrowers that may not be able to refinance, Woodwell said.

MBA's 2009 survey collected information directly from servicers on the maturity years of more than \$1.5 trillion in outstanding mortgages, including \$1.45 trillion of non-bank commercial real estate holdings.

Just 2%, or \$4 billion, of the outstanding balance of multifamily mortgages held or guaranteed by Fannie Mae, Freddie Mac, FHA and Ginnie Mae will mature in 2010. Life companies will see 7%, or \$17.5 billion, of their outstanding mortgage balances come due in 2010.

About 12% of loans held in CMBS will come due this year, including 7% of the \$650 billion of loans in fixed-rate conduit CMBS and 72% of the \$54 billion of loans in floating rate and large-borrower CMBS.

### Wells Fargo/Wachovia Tops MBA Servicer Rankings

Another conference staple, the MBA's annual ranking of commercial mortgage lenders, showed Wells Fargo/Wachovia Bank leading the pack with \$473.8 billion in total U.S. master and primary servicing.



In the association's year-end ranking of commercial and multifamily mortgage servicers, following Wells Fargo/Wachovia were PNC Real Estate/Midland Loan Services, \$322.9 billion; Berkadia Commercial Mortgage, \$217.9 billion; Bank of America Merrill Lynch, \$131.7 billion; KeyBank Real Estate Capital, \$128.5 billion; and GEMSA Loan Services LP, \$102.3 billion.

#### **Mortgage Originations Rise in 4Q**

Commercial mortgage loan originations increased by 12% over the same period last year and by 15% from the third quarter, the MBA reported this week in another annual survey.

"Commercial and multifamily mortgage originations picked up in the fourth quarter but remain at a low level in absolute terms," said MBA's Jamie Woodwell. "The trend shows stability coming back to the market, but the pickup in volumes really indicates just how low origination levels had fallen."

The 12% increase during the fourth quarter was driven by increases in originations for all property types except multifamily, according to MBA's Quarterly Survey of Commercial/Multifamily Mortgage Bankers Originations. Loans for hotel properties rose 105% over the same period in 2008; 101 % for retail properties; 59% for industrial properties, 4% for office and 1% for health care. Multifamily property loans declined 8% during the period.

In other MBA initiatives, Courson said the association will continue to advocate for extension of the Term Asset-Backed Securities Loan Facility (TALF) program, which expires partly at the end of March and fully in June, Courson said. TALF should be extended because ensuring continued liquidity in commercial markets "remains a major concern," he said.



## **Banks Report Slowing CRE Loan Charge-Offs**

### **銀行公佈商業地產貸款的損失註銷速度減緩**

*Despite Signs That Some Property Fundamentals are Stabilizing, CEOs Remain Cautious and Measured in Their Forecasts and Non-Performing CRE Loans Remain a Problem Area on Bank Balance Sheets*

*By Randy Drummer (CoStar)*

A number of major regional banks reported a general slowing in the rate of deterioration of their commercial real estate loan portfolios in the fourth quarter, with several reporting a decline in the rate of charge-offs -- loans deemed mostly uncollectable -- along with signs that credit quality and portfolio performance are stabilizing.

However, even as some executives expressed optimism that their institutions may have weathered the worst of the storm, they acknowledged that non-performing CRE loans continued to mount in their portfolios. The pace of economic growth, specifically job creation, will determine how quickly fundamentals such as occupancies and property values will recover.

"We are encouraged by some of the recent trends but remain cautious about the pace and substance of improvement," said Regions Financial Corp. President and COO Grayson Hall. "We clearly see improvement in our credit quality metrics but remain measured in our forecast regarding the pace of improvement."

As much as 35% of the approximately \$270 billion in commercial real estate loans maturing this year are reported to be backed by property worth less than the loan balance. And that level is expected to increase among loans coming due in 2011 and 2012.

Meanwhile, at least nine banks have closed so far this year, and the Federal Deposit Insurance Corp., which insures the deposits of 8,200 U.S. banks, warns that exposure to troubled loans was a key factor in most of those failures.

That said, several of the regional banks, which many observers say along with community banks are bearing the brunt of exposure to troubled CRE loans, reported smaller-than-expected fourth-quarter losses over the last few days. One of the largest, Atlanta-based SunTrust Banks, Inc., said overall bank loan deterioration slowed and net charge-offs dropped 18.7% from the previous quarter to \$820.5 million.

Charge-offs, early-stage delinquency and non-performing loans across SunTrust's entire loan portfolio declined in the quarter -- albeit at relatively high levels -- and asset quality is beginning to stabilize, said SunTrust Chief Risk Officer Tom Freeman.

Non-performing loans in the bank's CRE portfolio increased in the quarter to just over \$400 million, or 2.6% of the portfolio, across a variety of property types including office and hotel. However, "the commercial real estate portfolio, including owner-occupied and income producing properties, is performing satisfactorily overall. The charge-off ratio in the quarter declined to single-digit basis points, where it was during the first half of the year, while early-stage delinquency improved slightly," Freeman said.

The majority of fourth-quarter CRE charge-offs related to one loan secured by an owner-occupied property to a manufacturer supplying the auto industry.

All of the increase in non-performing CRE loans was in smaller loans of \$7 million or less, a portfolio that SunTrust expects continued stress and losses, Freeman noted.



Another regional bank with exposure to construction and CRE loans, Zions Bancorporation, also reported a narrower loss in the quarter. Despite its fifth consecutive quarterly loss, Zions, which operates banks in 10 Western U.S. states, "enters into 2010 feeling increasingly confident that peak levels of loan losses are behind us and that economic conditions in the majority of our markets have begun to stabilize," Chief Executive Officer Harris Simmons said. "Various measures of credit quality have steadied or improved compared to prior quarters, which is likely to lead to lower loan losses and provision expenses."

Zions' losses are beginning to shift away from "high severity loans" in commercial and residential real estate, construction and development, said CFO Doyle Arnold.

"We're encouraged by the lower level of net charge-offs," Arnold said. "Construction loan losses accounted for just under half the total charge-offs, which is down from about 70% of the total a year ago. Total commercial real estate charge-offs declined \$52 million for the quarter and construction and land development were down by a much larger amount."

Given its substantial exposure to commercial real estate, Zions continued to increase its reserve provisions in the fourth quarter to mitigate the risk. However, if non-performing loans continue to shrink at the current rates and the economy improves, "the need for continued reserve build may be over," Zions Senior Executive Vice President Bill Wells said.

Nearly all banks, however, reported that commercial and real estate construction loan demand and activity continued to be weak, reflecting the continued standstill in development. "Although our commitment levels remain high, commercial utilization rates were declining through year-end and are substantially lower than in a normal environment," said Regions CFO Irene Esteves. "Nevertheless, we're beginning to see some stabilization and are continuing to search for and extend loans to creditworthy customers. There is no doubt that we are poised to grow balances once the economy improves and demand returns to more normal levels."

In a sentiment echoed by other banks, Esteves said Regions continued to try and eliminate credit risk from the balance sheet by selling \$1.3 billion of investment portfolio securities, including commercial and residential non-agency mortgage-backed securities and municipal bonds. Regions reinvested those proceeds into agency guaranteed MBS and as a result, the investment portfolio now has "very minimal risk" to CMBS, non-agency mortgage-backed securities or municipal bonds, Esteves said.



## Spurned by Banks, Builders Look Elsewhere

### 銀行不借建築貸款，建築商轉向私人投資基金

*Private Equity Steps Up to Fund Smaller Developers as Traditional Lenders Balk—but the Cash Doesn't Come Cheap*

*By James R. Hagerty*

Private-equity firms are stepping into the vacuum left by banks' flight from lending to small and midsize home builders.

"The banks just are not doing construction loans," says Robert Mecay, a real-estate developer who is trying to build a luxury condominium complex on the south shore of Lake Tahoe in Zephyr Cove, Nev. So Mr. Mecay and his partners in the Tahoe Beach Club project are seeking \$150 million of equity or debt financing from private-equity firms.

The money isn't cheap. For loans, some private-equity firms were offering interest rates of roughly 15% to 20%. But Mr. Mecay, whose previous projects have relied on bank loans, wants to start the project soon, while construction costs are low as subcontractors and suppliers scrap for scarce business.

"We need to get moving," Mr. Mecay says. Developer's Financial Solutions Inc., a financial-advisory firm in Rancho Santa Fe, Calif., is trying to line up financing for Mr. Mecay's project from wealthy individuals or private-equity funds.

Banks haven't totally abandoned construction lending, but they are much more restrictive, and some have temporary freezes on new real-estate loans. Many banks that formerly courted home builders are now short on capital and badly burned by their current loan books. As of Sept. 30, about 15% of real-estate construction and development loans were 90 days or more overdue at financial institutions whose deposits are insured by the Federal Deposit Insurance Corp., up from 1.9% two years earlier. Such loans outstanding have dropped to \$492 billion from \$616 billion two years before.

The financing drought is mainly hitting small and midsize builders. Major publicly traded home builders, by contrast, haven't needed to tap private equity because they have access to the public debt and equity markets, as well as lines of credit from banks.

At its annual convention in Las Vegas last month, the National Association of Home Builders set up booths for private-equity fund managers and other potential capital providers to meet with small builders are having trouble getting bank loans. More than 30 financial institutions and advisers took part in that event.

Many of the discussions there involved either loans or equity investments in land acquisition, development or building projects. "It's not inexpensive money, but it's available," says Don Faye, a part owner of a new San Diego company, Presidio Residential Capital, which so far has made two loans, totaling about \$17 million, to home builders and expects to make more soon.

Mr. Faye says many small builders are looking for very small loans of a few million dollars but Presidio doesn't want to get involved in transactions below \$10 million.

Unlike some banks, Presidio doesn't seek personal loan guarantees from the owners of home builders, Mr. Faye says. It does seek an indemnity against the risks of toxic material on the site.





Mr. Faye says the key to safe lending is to choose builders carefully and make sure the project is sound.

Within a few years, Mr. Faye says, banks will flock back into construction lending and bring interest rates down. For now, though, private-equity firms have a chance to earn high returns on building projects, assuming they back ones that pan out.

"The private lenders will have their heyday for the next 12 months, maybe 18 months," says Michael Maples, an owner of Trumark Cos., a small home builder based in Danville, Calif. Trumark is using a private-equity investment, rather than a bank loan, for a townhome project in the Granada Hills area of Los Angeles.

While private-equity capital is more expensive, it often comes with fewer requirements for builders to provide documentation of construction costs and other items, says John Burns, chief executive of John Burns Real Estate Consulting.

Among the capital providers who showed up for the Las Vegas event was John A. Hay, a director of KeyCorp's Real Estate Capital unit, which manages a \$100 million private-equity fund focused on real estate. That fund already has taken equity in land-development ventures with regional builders under profit-sharing arrangements.

Now, Mr. Hay says, he is talking to smaller builders about similar deals. The fund aims for rates of return of at least 20%.



**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
<i>Conforming and FHA Loans</i>		
• 30-Year Fixed	4.875%	5.065%
• 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	3.750%	3.267%
 <i>Larger Loan Amounts in Eligible Areas – Conforming and FHA</i>		
• 30-Year Fixed	5.000%	5.138%
• 30-Year Fixed FHA	5.125%	5.794%
• 5-Year ARM	4.250%	3.652%
 <i>Jumbo Loans – Amounts that exceed conforming loan limits</i>		
• 30-Year Fixed	5.750%	5.895%
• 5-Year ARM	5.000%	3.930%