



## COMMERCIAL REAL ESTATE MARKET UPDATES

### GENERAL

市場概括

- [Signs of Hope Seen in Investment Sales Activity](#)  
投資買賣顯現零星復蘇跡象 | 銀行與金融機構法拍增加
- [CMBS Outlook: Multifamily Still Stressed; Retail Half Way There](#)  
商業貸款抵押證券：公寓拖欠率仍然最高；購物商場拖欠率預計會翻倍
- [Commercial Developers Off to A Rough Start in 2010](#)  
商業地產發展商開年以來持續低迷
- [Pacific Western Bank Sells \\$324 Mil. of Impaired Loans](#)  
Pacific Western 銀行以兩百萬的價錢出售三百二十四萬元的問題貸款

### RETAIL

購物商場

- [Retailers Expected to Close Fewer Stores in 2010](#)  
2010 年零售商的關閉預計會減少

### MULTIFAMILY

公寓

- [Builders Get Back in Game](#)  
公寓發展商逐漸開始建造新公寓

### FINANCING

貸款與資金

- [U.S. Mortgage Delinquencies Edge Down](#)  
美國房貸拖欠率在去年第四季度稍微下降
- [Latest Residential Loan Rates \[Similar to Last Week\]](#)  
最新住宅地產貸款利率【與上周持平】

### *F5 Makes Successful Debut in Irvine* 2010 華人財經菁英論壇在爾灣成功落幕





## Signs of Hope Seen in Investment Sales Activity

投資買賣顯現零星復蘇跡象  
銀行與金融機構法拍增加

*2010 Institutional-Quality Property Sales Showing Year-over-Year Improvement in Many Categories*

*By Mark Heschmeyer (CoStar)*

Large dollar property sales seem to be emitting faint sparks of hope for the commercial real estate outlook so far in 2010, particularly in the multifamily and hospitality sectors.

To be certain, the number of property sales with price tags of \$5 million or more still declined 16% in January from the number of sales in January 2009, according to CoStar Group Inc. And that was a steeper decrease than seen in November and December.

However, that decrease in dollar volume can be attributed to fewer deals and smaller properties being sold. The average size of the properties sold this past January was 5% smaller than a year ago, and the number of deals was down 15%. That helped raise, the average price per square foot being paid for institutional-quality properties from \$141 per square foot to \$149 per square foot January to January, the third month in a row that the average price paid was more than it was in the year-earlier period.

What's more, multifamily sales in the \$5 million and up category increased 50% over the year earlier. This was the second month out of the last three that multifamily sales had increased month over month. Apartment sales were up in November and flat in December.

Hospitality property sales also took a huge upward turn in January - up more than 250% over the year-earlier period. Although, it was the first monthly increase since the recession started, the trend over the last four months has clearly been improving for hotel properties. They were down 58% in October 2009 compared to October 2008, but down only 1% in the December-to-December period.

While no one is jumping to the conclusion that the results clearly indicate commercial real estate has turned a corner, they do appear to lend more credence to the belief that a painfully slow rebound may be in progress.

"We'll see more transactions involving institutional quality property because buyers are beginning to understand that prices for top-quality properties may be at or near a bottom," said Bob Bach, chief economist at Grubb & Ellis. "I think we'll see a gradual increase in sales this year of perhaps 20% to 30% or possibly considerably more."

"We'll also see [more activity in] Class B and C troubled assets in secondary and tertiary markets because lenders realize there's no reason to hang on for better prices because these properties will be the last to recover," Bach said. "Prices are expected to drift moderately lower, more into the strike zone where buyers and sellers will start to make deals. But the pricing correction is [still] probably [only] two-thirds to three-quarters over with."

In addition to attractive pricing and lenders more willing to sell, confidence from the resumption of job growth is also expected to stimulate the willingness among investors to seek outsized returns by taking on greater risk.

As CoStar's Property and Portfolio Research (PPR) noted in its 2010 Predictions white paper, "Once we start getting a couple of months of positive job numbers, particularly if there is an accelerating trend, 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."

According to PPR, the best-performing opportunity funds from a vintage standpoint have been those that are executed in the last year of a recession or the first year of the recovery. Looking back to the last downturn, 2001 and 2002 vintage funds were the best-performing opportunity funds over the previous eight years.

### **Multifamily Investment Sales**

"There has undoubtedly been an uptick in transaction velocity in multifamily deals, and I believe it is due to a variety of factors," said Darron Kattan, partner and senior multifamily broker for Franklin Street Real Estate Services in Tampa, FL. "Multifamily is always the top choice of investment dollars and therefore there are a lot of buyers looking for deals. Nothing new in this cycle versus previous where multifamily is the first to recover due in large part to the availability of buyers. Multifamily was actually the first to hit the distressed radar screen, with the shortest term leases (outside of hotels), and therefore became the first to get hit hard by the downturn and land on asset managers' desks at lenders and servicing companies, and therefore are the first working through the system."

In addition, Kattan noted that AIMCO and Equity Residential were large net sellers in 2009 due to balance sheet and stock pricing issues. That, he said, opened the door for attractive deals to hit the market.

Tim Wang, vice president, senior investment strategist for ING Clarion in New York noted that Freddie Mac, Fannie Mae, and HUD have been dominating the multifamily financing.

"This is the only property sector that you can still lever up to 75% loan to value and have positive leverage to juice up investment returns," Wang said. "The Fed plans to end its \$1.25 trillion mortgage debt purchase program by the end of next month, which could potentially lead to an increase in GSE mortgage rates. So, there is a rush in the marketplace to take advantage of the attractive financing terms and do multifamily deals before this deadline."

### **Hospitality Investment Sales**

"Hotel demand is highly correlated with economic growth," Wang said. "Historically, it is one of the first property sectors to recover after recession. The sector is definitely improving, albeit from probably the steepest downturn in the U.S. lodging industry history. We are seeing generally stabilized occupancy while the average daily room rate is still declining but at a slower rate. The major difference in this downturn is that there was excess hotel supply delivered to the market in 2008-2009. Consequently, the revenue per available room recovery this time around could be slower than in the past."

Gordon L Wicker, chief operations officer for AXIA Real Estate Appraisers in Tucson, AZ, said, "with respect to the hospitality market statewide, average daily room rates and average daily occupancies remain well off 2007 numbers, so most sales activity in the larger regional/national market appears to be an increase in activity from REITs both as a long-term investment, and also due to a lack of attractive investment alternatives."

Timothy D. Chamberlain, principal at Koda Ventures LLC, and senior director at Lee Kennedy Co. Inc. in Quincy, MA, also noted that hospitality, while still distressed, is becoming appropriately priced.

"Hospitality is discounted enough to start to move and apartments represent stabilized cash flow, which is what the market wants today," Chamberlain said. "All other classes are getting kicked down the road and are not yet priced appropriately for a reasonable risk adjusted return."

March 8  
2010



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4

### Office, Industrial and Retail Investment Sales

"There will be an uptick in volume in 2010, but not much," Chamberlain said. "2011-'12 will be an active years for the industrial, office and retail food groups."

Of the three primary commercial real estate property sectors, 2010 investment sales numbers seem to indicate that office properties have improved the most over 2009. For starters, the pace at which sales have been declining has slowed dramatically. October 2009 sales were 50% fewer than they were in October 2008. That dropped to 24% fewer for December 2009 over December 2008. And in January of this year, office property sales of \$5 million and up were off just 6% from what they were a year earlier. Notably, the average price per square foot is down dramatically from what it was a year ago: \$158 compared to \$202.

Retail and industrial property sales were still way down from year earlier numbers. Retail sales in January totaled 38% less the year-earlier period and industrial sales declined 68% month over month.

"Retail will generally continue to struggle until investors can get a feel for when occupancy rates and net operating incomes will stop deteriorating," said Mac McCall, senior director of Franklin Street Real Estate Services in Atlanta, GA. "With many retailers continuing to see declining sales, especially mom and pops, vacancy rates will continue to tick up without the added boost of increased employment in the overall economy."

"Additionally," McCall continued, "if you factor in the potential of bank-owned retail properties hitting the market in the coming years, buyers of this product will be able to get away with charging lower rents because their acquisition basis is much lower than their neighboring properties which were either built or acquired during the peak of the cycle and therefore have to charge higher rents to justify their mortgage payments. Both of these key factors make it a tough sell to a potential investor to invest in an asset with so much uncertainty regarding future cash flows."

Manish Rajguru, who oversees the evaluation of CMBS and other CRE debt instruments at Red Pine Advisors LLC in New York, said that, "the industrial [property sector] should increase, especially those related to trade (exports in particular). The office and retail property sectors should continue to lag given uncertainty of growth in office using employment and consumer respectively (and General Growth Properties' fallout as some malls will have to be repositioned/closed)."

### Buyer Demographics

The buyer profile of institutional quality properties has shifted in the last four months from what it was a year earlier. Developer/owner and investment manager buyers continue to be the primary buyers of properties and, in fact, have increased their outlay year over year. Developer/owner purchases were up to about \$7.3 billion in the last four months compared to \$6.8 billion in the same period a year earlier; and investment manager buys were up to \$5.5 billion from \$3.7 billion.

REITs and corporate buyer have decreased their buying activity in the last four months from a year ago. REIT activity was down slightly from \$5.4 billion to \$5 billion; and corporate buying activity was down from \$3.5 billion to \$2.6 billion.

Notably, it appears that banks and financial institutions have stepped up their foreclosure activity. Bank/finance firms accounted for \$1.9 billion in purchases in the last four months up from \$480 million in the same period a year

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2010



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5

earlier.



## **CMBS Outlook: Multifamily Still Stressed; Retail Half Way There**

**商業貸款抵押證券：公寓拖欠率仍然最高；購物商場拖欠率預計會翻倍**

*By Mark Heschmeyer (CoStar)*

While multifamily vacancy rates are expected to stabilize in certain markets, Fitch Ratings' outlook for the sector in the near-term remains negative. Although vacancy rates are expected to reach their peak of 8.9% in 2010, rents will take longer to recover, as landlords continue to offer significant concessions to maintain occupancy.

The multifamily market faces several challenges to its recovery including high unemployment and declining immigration. In addition, the increasing affordability of single-family homes resulting from depressed prices and government programs intended to stabilize the single-family market will continue to impact multifamily demand.

Landlords have been offering rent concessions to maintain or increase occupancy, a trend that is expected to continue in the near term. According to PPR, a CoStar Group subsidiary, rent growth will not occur until 2012. But then look out: Come 2012, rents will take off, growing a cumulative 10% across the PPR's 54 markets it covers from their trough to the end of the forecast. West Coast metros will post the most spectacular recoveries. San Jose rents will rebound by more than any other market in the PPR54 at a cumulative 21%, followed by Orange County at 18%, San Francisco at 17%, and Seattle and Los Angeles, both at 15%, according to PPR.

Fitch Ratings' multifamily delinquency index is 8.33% as of February 2010, an increase from the prior month's rate of 7.54%. This is expected to climb to nearly 13% in the near future as the Peter Cooper Village/Stuyvesant Town loan hits 60+ days delinquent. The multifamily delinquency rate is second only to hotels at 16.44%.

States that represent a disproportionate share of delinquencies in rated CMBS issuance are generally areas that have suffered most in the residential real estate downturn, including: Nevada (23% of multifamily loans are delinquent); Tennessee (21%); Florida (18%); and Texas, which has limited barriers to entry and as a result has experienced over building, also has a high delinquency rate of 11%.

Some of the stronger markets with lower delinquency rates include: Washington (less than 0.1% of multifamily loans are delinquent);-Pennsylvania (1.1%); New Jersey (2%); and Washington, D.C., which has benefited from an expanding federal government, remains healthy as well, with a multifamily delinquency rate of less than 0.1%.

### **Retail Declines**

Although retail sales are expected to improve modestly in 2010, Fitch maintains a negative outlook for U.S. CMBS retail properties. Fitch expects that average retail revenues will decline 20% from their 2007 highs. Although a modest increase in 2010 sales is projected, this is unlikely to rescue the many properties with severely eroded equity positions.

Macroeconomic factors such as high unemployment and a challenging consumer credit environment are expected to continue to impact retail performance. Declining revenues and systemically overleveraged positions will continue to impact CMBS retail properties. Revenue declines have largely been the result of falling rents (both base and percentage) as well as several significant retail bankruptcies. As retail sales have declined, occupancy costs have skyrocketed for many retail tenants. The inevitable outcome for these tenants is either store closings, or renegotiation of lower rental rates. In order to keep retail occupancies up, property owners will likely be forced to accept lower rental rates from tenants with leases rolling over.

March 8  
2010



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7

Retail delinquencies are expected to reach 8% by the end of 2010. The retail delinquency rate for Fitch-rated CMBS transactions stands at 4.94%, as of February 2010. This ranks third highest among delinquency rates by property type. Due to the expected continued decline in retail and other CMBS property types, 25% of rated CMBS tranches maintain a negative outlook.

Just as in the multifamily sector, CoStar Group's PPR projects that retail rents will begin to increase in 2012. Yet, real rent levels will remain well below the previous market peak even through the end of 2014, according to PPR's Retail Market Performance Report released this month.



## Commercial Developers Off to A Rough Start in 2010

### 商業地產發展商開年以來持續低迷

*Federal Stimulus Isn't Helping Most Government Start Projects, Let Alone Private Developments. Cash-and Credit-Starved Projects Still Can't Even Reach Architects' Drawing Boards*

*By Randy Drummer (CoStar)*

Commercial real estate development and construction activity continued to plumb new depths in 2010, according to new government data. And a leading indicator of future construction activity finds even fewer projects on the drawing boards.

According to statistics released this week by the U.S. Commerce Department, spending on private nonresidential construction projects fell by nearly 20% in January compared with a year ago. Projects by private developers also declined 2.1% from December, particularly for hotels, industrial facilities and communications facilities.

Meanwhile, the public construction sector isn't doing much better, despite the stimulus bill enacted by Congress a year ago. Public-sector construction spending in January fell 0.7% to \$306.9 billion, the sixth consecutive quarterly decrease.

Stimulus dollars do seem to be starting to have an effect on direct projects by the federal government. The benefits don't appear to be trickling down, however. At least not yet. Direct federal government construction spending rose by 1.9% in January, the highest percentage increase in three months -- and jumped 13% from a year ago to a record \$31 billion. However, spending by cash-strapped state and local governments -- which makes up the lion's share of public construction (and projects earmarked for stimulus monies) - fell by nearly 1% from December to January.

There doesn't appear to be much hope for a burst of construction activity later this year - or possibly next year -- either. In strong evidence that construction and development will remain soft at least through the balance of 2010, a leading indicator of future construction spending, the Architecture Billings Index (ABI), dropped almost three points in January.

The billings index fell to 42.5, the lowest since August. Spending on construction typically lags bills submitted by architects by between 9 and 12 months. The index has been below 50, the tipping point between contraction and growth, for more than two years.

Only two major sectors, the infrastructure-related categories of power facilities and highway and road construction, posted consistent gains year over year, according to the Commerce Department numbers.

"The downturn in nonresidential construction spending is far from over," noted Ken Simonson, chief economist for construction industry trade group the Associated General Contractors of America. "Federal funding for construction is one of the few crutches propping up a deeply wounded construction industry."

Overall nonresidential construction spending, which includes public works, heavy industrial, schools, government and infrastructure as well as for-profit projects by private office, multifamily, retail and industrial developers, slipped 1.4% in January from the previous month and 10.6% from January 2009 to \$615 billion on a seasonally adjusted annual basis. Subsectors posting the largest year-over-year declines were lodging, down 45.5%; commercial construction, -32%; manufacturing, -28.5% and office construction, minus-25%.





Some of the January weakness can be attributed to the heavy winter weather experienced in many parts of the nation, data will also be impacted by the weather, said Anirban Basu, chief economist for another building trades group, Associated Builders and Contractors. The next set of meaningful numbers will probably be the March report, which comes out at the beginning of May, Basu said.

Not that 2009 ended with much of a bang. About 3.2 million square feet of new office construction started nationally in fourth-quarter 2009, a big drop from the 10 million square feet started during the same period in 2008 -- and a more-than 90% plunge from first-quarter 2007's 33 million square feet, according to CoStar's 2009 Year-End National Office Report. There were 54 million square feet of office space under construction nationally at the end of the fourth quarter 2009, less than half the total a year earlier, according to historical CoStar data. That trend is duplicated across other property types.

Credit woes and extremely strict equity requirements by lenders are forcing the postponement or cancellation of new developments -- even those sponsored by financially sound, creditworthy companies, said Kermit Baker, chief economist with the American Institute of Architects (AIA), which compiles the monthly ABI. The situation "is being compounded by a skittish bond market, decreased tax revenues for publicly financed projects and declining property values," Baker pointed out.

Weakness is nationwide in the architecture industry and allied design fields, where unemployment is running north of 20%. The Western and Sunbelt states, where housing and commercial construction has fallen the hardest, are particularly hard hit.

The project paralysis also crosses all property sectors - although there is one discernable bright spot. Multifamily construction was the only property sector to post positive growth in architect billings in January - granted, by a hair's breadth 50.1. Commercial/industrial and institutional projects shrunk, registering 44.9 and 43.1 on the index, respectively.

The faint pulse in apartment development reflects a stirring of activity among some of the large REITs - for example, Alexandria, VA-based AvalonBay Communities, whose president, Tim Naughton, recently said would start an admittedly modest \$400 million in new projects this year.

Almost 120,000 apartment units - nearly 1% of total inventory -- delivered in 2009, exceeding the annual average over the last five years, according to a recent report on apartment fundamentals by CoStar's forecasting and analytics subsidiary, Boston-based Property & Portfolio Research, (PPR) Inc.

Most of this new supply comes from the last gasp of the prior cycle's lax lending environment and pricing bubble, with a small percentage coming from unsold condominiums converting to rentals.

The supply pipeline will stay shut through 2012, even in high-growth markets like Texas. However, development will return in full force by 2013-14, especially in Southern metro markets, said PPR real estate economist Katie Pelczar, author of the survey of apartment fundamentals in PPR's top 54 markets.

"Very minimal supply will delivery this year and next year, mostly because there was very little that got under way last year," Pelczar said. "It takes quite a while to build a large multifamily property. Any project that gets under way today or in the next six months will most likely be delivered in 2012, or later.

Financing availability is putting a damper on even the most modest ambitions of most developers.

March 8  
2010



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10

## **Pacific Western Bank Sells \$324 Mil. of Impaired Loans**

**Pacific Western** 銀行以兩百萬的價錢出售三百二十四萬元的問題貸款

*By Mark Heschmeyer (CoStar)*

Pacific Western Bank in San Diego, CA, sold 61 non-covered adversely classified loans totaling \$323.6 million, which includes \$107.6 million of nonaccrual loans, to an institutional buyer for \$200.6 million in cash - or about 62 cents on the dollar.

Among the loans sold were \$142 million backed by commercial real estate including \$12.4 million on owner-occupied property, \$32 million on retail property, \$58 million on hotel property and \$25.2 million on multifamily property.

It also included another \$100 million in commercial real estate under construction including \$6.8 million for owner-occupied property, \$8.4 million of industrial property, \$32.7 million of office property, \$20.7 million of multifamily construction and \$24.1 million in retail property.

"Removing almost \$324 million of problem loans from our portfolio in a single transaction creates tremendous opportunity for the company," said Matt Wagner, CEO of PacWest Bancorp, the bank's parent company. "We remain cautious and vigilant with respect to credit, and our existing loan portfolio is subject to uncertainty and volatility given the fragile economic environment. Without these problem loans, however, and given the significant earnings power of our company, we believe PacWest is well-positioned to grow, both organically and through acquisition."

The bank holding company estimates it will take a \$41 million loss on the sale after taxes.



## Retailers Expected to Close Fewer Stores in 2010

### 2010 年零售商的關閉預計會減少

*Improved Store Opening Activity in 2010 Expected to Moderately Buffer Closure Activity*

*By Sasha Pardy (CoStar)*

Add store closings to the list of categories where 'less bad' has become the 'new good.'

The International Council of Shopping Centers (ICSC) issued its latest semi-annual report on store closings and found that the huge wave of store closures that many had anticipated in 2009 did not occur.

During 2009, national retail chains announced the closure of 4,763 stores, according to the ICSC. Not only is this figure far less than the 6,913 store closures announced during 2008 (31% less to be exact), but it is more in line with the level of store closures recorded in the pre-recession years of 2005, 2006 and 2007.

For its report, ICSC tallies store closing announcements made by national retail chains and as such is intended to reflect the overall trend, not the actual number of stores closed by all retailer types across the nation each year. ICSC has been tracking these major store closings announcements via the same methodology since 2001, providing a very useful industry benchmark.

Commenting on the trend, Retail Real Estate Strategist Suzanne Mulvee of CoStar Group's Property and Portfolio Research (PPR), noted the big drop-off in announced closures by the national chains.

"While the realities of the decline in retail sales precipitated the massive volume of closures since 2007, the pressures of being a public company shaped the timing of these announcements," Mulvee said. "Under the pressure of a historic recession (and with stock prices already down,) many retail execs piled on the bad news. It's the classic "Big Bath" theory. This is why the (store closing) announcements were front-loaded in 2008."

PPR's Mulvee said she expects that the tally of 2010 store closing announcements will come in below 2009. In addition, she expects the net change in the number of stores to be more favorable as retailers warm to opening new stores.

"The outlook for 2010 is for retail sales to firm, with stronger growth expected in 2011," Mulvee stated. "At the macro level, this portends well for new store openings. At the tenant level, store openings in 2010 will be driven by balance sheet decisions - healthier balance sheets will allow for retailers to seize an historic opportunity to take market share through new expansions. To the winner goes the spoils!"

Mulvee added that there is clear evidence that this is already happening - stronger (and likely leaner) retailers are posting impressive same-store sales growth. And this group of retailers is issuing the majority of expansion announcements.

Working with Bureau of Labor Statistics' retail establishments data, which lags by about one year, ICSC also releases its estimate for the actual number of total retail establishments that were closed and opened across the nation.

During 2008, ICSC estimates that the total number of actual stores closed outpaced major retailers' store closing announcement by more than 20 times -- specifically, 143,000 stores were actually closed in 2008, compared to the



announcement of about 6,900 closures by major retailers. While ICSC has yet to release its estimate of the actual number of retail establishments closed during 2009, CoStar estimates this figure, too will end up being about 30% less than 2008, which would result in about 98,500 total closures.

However, it's important to balance that out with the fact that retailers are also opening stores. According to ICSC estimates, 112,000 new retail establishments opened their doors during 2008, making for a total net loss of 31,000 stores that year.

If we assume that actual new store openings will ring in at about 30% less than 2008 -- a reasonable hypothesis considering retailers' significant pullback in new store openings during the recession -- than we could estimate that about 77,200 stores opened during 2009. If such activity proves to be true, we could estimate a total net loss of approximately 21,359 stores during 2009 -- such a figure would be more in line with numbers coming out of the last recession, which were subsequently followed with significantly less net closure activity.

By CoStar's count; major retailers have already announced at least 1,144 store closures this year, creating additional retail space availability of approximately 10.3 million square feet.

To get a gauge of what the retail real estate community is anticipating in terms of the amount of store closure announcements expected to come from major retailers in 2010, CoStar conducted a reader poll of its Retail News Roundup subscriber list. The poll question was, "What are you expecting we'll see in terms of the number of store closure announcements from major retailers in 2010 as compared to 2009?", and respondents were invited to answer, "Significantly More" store closure announcements, "Moderately More", "About the Same", "Moderately Less", or "Significantly Less".

Respondents do not expect a big change in either direction. All answers were either "moderately more" or "moderately less," with "moderately less" emerging as the clear consensus.

Ivan Friedman, president and CEO of RCS Real Estate Advisors, which serves as a real estate consultant and disposition firm for several national and regional retailers, explained why he expects moderately less store closure announcements from major retailers this year.

"In the last two years, companies have purged and cleansed themselves of a lot of stores, and we've also purged and cleansed ourselves of a lot of companies, such as Linens 'n Things and Circuit City, for example."

However, many "endangered species" still remain in the non-mall sector, said Friedman, adding that he expects to see more closure announcements come from non-mall retailers. Friedman concluded that the stabilization of retailers' sales will likely stave off 2010 closures from being worse than 2009.

While Friedman also expects an improvement in store openings during 2010, he does not expect openings to outweigh store closings this year.

Levin Management Corp. recently completed a survey of retail store managers across 1,000 of its tenant in NY, NJ, PA, VA and NC. Among the results, 37% of store managers said their companies would be looking to add new stores in 2010. Matthew Harding, Levin's president and COO said the survey showed "signs of a consumer market that is regaining traction." He added, "The fact that more than one-third indicated they will add stores is a very positive sign. Even in the best of times, not all retailers are seeking to expand. In this current economy [this is] encouraging.

March 8  
2010



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13

Stephen Lebovitz, president and CEO of CBL & Associates said in a Feb. 4 earnings call, "We are hopeful, as retailers benefit from better margins and cash flow, bankruptcy and store closure activity will be limited. We're already starting to hear about retailers opening up their expansion programs on a selective basis."

Our second poll question asked respondents to select the top three retail categories in which they expect we will see the most store closure announcements in 2010.

At the top of the list was the Media category, including books, video, gaming and music. This is not so surprising when considering that Movie Gallery and Blockbuster have already stated plans to close at least 1,300 stores this year. Also in this category, many industry experts continue to question whether the Borders chain will be able to survive another year as second fiddle to Barnes & Noble. Additionally, Trans World Entertainment (owner of F.Y.E. , Coconuts, etc) continues to shed stores in excess of 100 annually.

Respondents said they expected the home furnishings / home accessories category and full-service / casual dining restaurants to account for a larger percentage of store closure announcements in 2010 as well. Ivan Friedman commented, "People have not really come back to the furnishings sector yet as it's still discretionary and tied to housing. Of all restaurant types, casual dining is the most challenged, still struggling with decreased sales."

Other still-vulnerable categories identified by several respondents include apparel/footwear/ accessories stores, department stores, electronics/appliance stores, and auto dealer/parts supply stores.



## Builders Get Back in Game

### 公寓發展商逐漸開始建造新公寓

*By Dawn Wotapka (WSJ)*

In St. Petersburg, Fla., close by Tropicana Field, an unusual structure is emerging from a construction site: a rental apartment building.

The work in progress on the Fusion 1560, a 325-unit upscale project in one of the states hit hardest by the housing crisis, is a sign that developers of multifamily housing are tiptoeing back into the business. This year, real-estate investment trusts, or REITs, are expected to start close to \$1 billion in new multifamily projects, according to real-estate research firm Green Street Advisors. While that still is less than average, it is a significant increase over the \$100 million of development starts in 2009.

Analysts caution that the increase in construction doesn't mean there has been an improvement in the business. Apartment vacancy is at a record and unemployment, essential to the sector's health, remains elevated.

But operators are betting that limited new supply, combined with an improving economy, will lead to ideal market conditions nationwide starting in 2011 or 2012. From then until 2015, "apartment REITs may generate the best property net operating income growth that they've seen in a very long time, maybe ever," said Haendel St. Juste, a REIT analyst with Keefe, Bruyette & Woods Inc.

To be sure, there are risks. Given the multiyear construction window, companies have to start now to be ready in time. If the economy weakens further and recovery is delayed, landlords may be forced to keep rents low or offer free rent to get leases signed.

"There's an element of risk," said Andrew McCulloch, an analyst with Green Street. "But if you were to go back a year, the outlook is much more clear today. Their confidence level in that eventual recovery is much higher."

Owners said the rent declines appear to have bottomed out in some areas and concessions are moderating. In New York, Equity Residential said it has stopped paying broker fees for certain unit types. In better times tenants pay that fee, typically one month's rent.

The gap between new and renewal leases has narrowed from about 10% nine months ago to about 5% today, a sign of confidence as landlords have to give up less to sign new tenants, Mr. St. Juste said.

Landlords also are excited about demand. The 20-to-34 age group, prime renting age, is expected to increase by five million in the next decade, according to Hessam Nadji, managing director of Marcus & Millichap, a real-estate-investment brokerage firm. People who moved home or who bunked with roommates during the downturn also might ink leases as the economy improves.

Moreover, construction costs "have fallen rapidly in the last two years," said Tom Toomey, chief executive of apartment owner UDR Inc. A unit that would have cost \$300,000 to build two years ago could now be built for as little as \$220,000, Mr. Toomey said.

Lumber prices have been cut 15%, while concrete prices are down 10%, he said. Labor costs have fallen as much as 15%. Starting development now "is starting to become an easier decision," Mr. Toomey said.

March 8  
2010



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15

The sector's optimism was apparent in January's housing starts. Construction of multifamily dwellings rose 9.2%, the Commerce Department said.

At Humphreys & Partners Architects LP in Dallas, which designs apartments, inquiries and job counts have more than doubled from a year earlier, said Chief Executive Mark Humphreys. "This time last year the financial world had come to an end," Mr. Humphreys said. "Everybody was frozen in time; they were just stunned. The phone was not ringing. Well, the phone is ringing now."

Developers said they are avoiding Las Vegas and Phoenix, which were overbuilt during the housing frenzy, in favor of more stable markets, including Washington, Boston and San Francisco.

In 2011, AvalonBay Communities Inc. plans to complete six projects with more than 2,100 units in locations including Walnut Creek, Calif., New York and West Long Branch, N.J. The rents will average more than \$2,000 a month, according to securities filings.

Equity Residential, meanwhile, plans to deliver 111 units in New York's Chelsea neighborhood in late 2011.

Developers also are using conservative projections when planning projects. Zaremba Group, which is building Fusion 1560, is targeting rents between \$925 and \$2,300 a month in 2011, when it hopes to be fully leased. Mr. Zaremba said that matches the current market.

"We're not banking on [rent increases]," he said.



## U.S. Mortgage Delinquencies Edge Down 美國房貸拖欠率在去年第四季度稍微下降

*By James Hagerty (WSJ)*

Fewer people fell behind on their home-mortgage payments in last year's fourth quarter, a sign that the default crisis may be peaking, the Mortgage Bankers Association reported Friday.

Separately, the Obama administration announced plans to provide \$1.5 billion to housing agencies in five states hit hardest by the crisis that would fund programs to help people avoid foreclosure.

The trade group said 3.63% of mortgage borrowers were between 30 and 59 days overdue in the fourth quarter, down from 3.79% in the third quarter, based on its quarterly survey of lenders. Normally, that rate rises in the fourth quarter as heating bills and holiday expenses cause some people to fall behind.

The decline in this category of newly delinquent borrowers reflects a drop in the number of people losing their jobs, said Jay Brinkmann, the MBA's chief economist.

But the overall number of people in trouble with their mortgages—those behind on payments or in the foreclosure process—continued to grow. At the end of the fourth quarter, 15% of home loans on one-to-four-family homes were in that category, up from 11% a year earlier. For the latest quarter, that equates to about 7.8 million households.

"We have fewer problems coming into the system," Mr. Brinkmann said. But "we still have a big problem we have to deal with."

The overall number continued to rise because people delinquent on their loans are staying in their homes longer before losing them to foreclosure. Lenders are overwhelmed with paperwork from foreclosure cases. At the same time, federal and state programs aimed at saving many borrowers mean that lenders are going through lengthy procedures to determine which people are eligible for easier loan terms. While waiting to be helped or evicted, many people don't make payments.

Some borrowers say they have trouble getting in touch with employees at lenders and often are asked to provide the same documents repeatedly.

About 2.9 million households are 90 days or more behind on payments, but not yet in foreclosure, nearly triple the total of two years ago, according to LPS Applied Analytics, a data provider. On average, those households are nine months behind on payments.

There is no guarantee that the number of households newly behind on payments will continue to shrink. LPS, which uses separate data from lenders, estimated that 3.4% of borrowers were 30 to 59 days behind in January, up slightly from 3.3% in December.

The default problem is largely concentrated in states hit hardest by falling home prices—Arizona, California, Florida, Nevada and Michigan. Those are the states that are designated to get portions of the latest \$1.5 billion federal program, dubbed Help for the Hardest-Hit Housing Markets.



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2010



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17

Those funds will be awarded to state and local housing-finance agencies that propose programs meet federal criteria. The money is to be spent helping unemployed homeowners and those whose home values have dropped far below the amount they owe on their mortgages. The administration said the agencies "may experiment with programs that would assist borrowers to negotiate with lenders to write down mortgages."

The money also can be used to help resolve problems arising from home-equity loans and other second-lien mortgages; in such cases, conflicts between the holders of the first- and second-lien mortgage often stymie efforts to work out a plan to lower payments. In addition, the funds could go to "other programs encouraging sustainable and affordable homeownership," the administration said.

The funds will come from the federal Troubled Asset Relief Program. Administration officials said they believed state and local housing agencies could design relief programs tailored to local needs.

The new program is the latest in a wide array of federal efforts to prop up the housing market, including the \$47 billion Home Affordable Modification Program, known as HAMP, which gives lenders incentives to reduce payments for struggling borrowers. That program, launched a year ago, is often criticized for failing to do enough for people who have lost their jobs or owe far more than the current value of their homes.



**Latest Residential Loan Rates [Similar to Last Week]**

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	Interest Rate	APR
<i>Conforming and FHA Loans</i>		
• 30-Year Fixed	4.875%	5.065%
• 30-Year Fixed FHA	5.125%	5.850%
• 15-Year Fixed	4.250%	4.573%
• 5-Year ARM	3.750%	3.519%
• 5-Year ARM FHA	3.750%	3.342%
 <i>Larger Loan Amounts in Eligible Areas – Conforming and FHA</i>		
• 30-Year Fixed	5.125%	5.264%
• 30-Year Fixed FHA	5.250%	5.924%
• 5-Year ARM	4.125%	3.606%
 <i>Jumbo Loans – Amounts that exceed conforming loan limits</i>		
• 30-Year Fixed	5.500%	5.643%
• 5-Year ARM	5.000%	3.930%