STC 資產管理 MANAGEMENT

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2005 Loans Drive U.S. CMBS Delinquencies Higher
2005 年的貸款拉高商業貸款抵押證券的拖欠率

(CoStar)

Upcoming maturities from U.S. CMBS deals originated in 2005 contributed to a 29 basis-point increase in delinquencies to 6.29% at the end of February, according to the latest U.S. CMBS delinquency index results from Fitch Ratings.

Approximately 30% of the newly delinquent loans were from 2005 transactions. In fact, the four largest newly delinquent loans (ranging in size from $65 million to $112 million) are from the 2005 crop of deals. Three of these four loans are past their 2010 maturity dates and are, therefore, categorized as non-performing matured loans.

"Five-year loans originated in 2005 will continue to have difficulty refinancing this year as liquidity remains limited," said Mary MacNeill, a Fitch managing director. "In many cases, sponsors will have to either contribute additional equity in order to refinance their loans or look to the servicers for extensions and modifications."

For the first time, office properties saw a greater than overall average increase in the index, with a 45 basis point movement month over month in comparison to the overall index of 29 basis points as three of the top four newly delinquent loans are office properties. Multifamily and industrial also exceeded the overall index change at 64 and 43 basis points, respectively. When the Peter Cooper Village/Stuyvesant Town loan hits 60 days delinquent, the overall index will increase 60 basis points, and multifamily will increase by more than 400 basis points.

Current delinquency rates by property type are as follows:

- Office: 3.50%
- Hotel: 16.61%
- Retail: 5.09%
- Multifamily: 8.97%
- Industrial: 4.16%

Fitch Ratings' delinquency index includes 2,505 loans totaling $28.5 billion of its rated portfolio, which is approximately 42,000 loans comprising $452.6 billion that are at least 60 days delinquent or in foreclosure. The index excludes Fitch-rated loans that are 30 to 59 days delinquent, which currently total $3.2 billion.

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Fourth Quarter 2009: California Transactions Rose 18.8% in Q4, Capping a Weak 2009
2009 年第四季度：加州商業地產買賣額與前一季度相比增加 18.8%

By MICHAEL GOTTLIEB (CREJ Editor)

The fourth quarter of 2009 marked the third consecutive quarter of double-digit percentage increases in California real estate transactions and the end of one weak year for the state's property investment marketplace.

Statewide transactions in the four major property types in assets priced at $5 million or more totalled $3.7 billion in the final quarter of 2009, an increase of 18.8 percent from the total from the prior quarter, according to Real Capital Analytics.

That brought the statewide commercial real estate transaction total in 2009 to $10.7 billion, a decline of 53.6 percent from 2008, a year when the transactional total declined 74.7 percent from the market's 2007 peak.

The reasons for the dramatic decline in transactions are legion, including aggressive underwriting from lenders pinching off debt, a recent escalation in distressed properties, investor caution, eroding property fundamentals rewriting values and sellers balking at today's asset prices.

As of December, U.S. commercial property values are down 29.2 percent in one year and 39.8 percent in two years, according to the Moody's/REAL All Property Type Aggregate Index compiled by Moody's Investors Service and Real Estate Analytics LLC.

In Southern California, values have not slipped as far, according to the index. Apartment prices have fallen 22.6 percent in the past two years, industrial prices are down 28.9 percent, office prices plunged 32.6 percent and retail prices slipped 25.4 percent.

Statewide, California mirrored the trend of declining values with the overall capitalization rate for all four major property types increasing each quarter of 2009, hitting 7.2 percent on a 12-month rolling average in the final quarter, according to LoopNet. That's a 22 percent increase from the prior year, when the state's average cap rate was 5.9 percent.

Yet there were pockets of demand throughout the state, forcing up cap rates in isolated examples, which helped drive up the transactional total for the fourth quarter.

"Capital came back in the fourth quarter," said Steven Bollert, principal and director of acquisitions at San Diego-based Westcore Properties. "There's a lot of competition for any of the significant-sized assets. We're seeing 30 bids on any asset."

Westcore is trying to source deals through banks, lenders, special servicers and the Federal Deposit Insurance Corp.

"It's not a traditional way of sourcing deals, so it's new for all of us," Bollert said. "It's slow for us. Particularly with banks and special servicers, they're just not yet ready to deal with those assets. They're seeing a big backlog of assets. Whether they come to market or not is the question. A lot of lenders are working with their existing borrowers."

In December, the delinquent unpaid balance for U.S. commercial mortgage-backed securities hit $41.64 billion, according to Realpoint, a 380 percent increase from the year prior. In California, the delinquency rate for all commercial real estate loans hit 0.97 percent in the fourth quarter. It was the first time in 44 consecutive quarters that the delinquency ratio was more than 0.5 percent, according to the California Mortgage Bankers Association.

"The banks will be reluctant to sell many of these assets at a loss since it will have an impact on their balance sheet," said Thomas Galvin, regional research analyst in Colliers International's Ontario office. "No bank wants to be a target for the FDIC, so weaker banks will probably hold on to these assets until the banks themselves become insolvent and then whoever steps in to clean up the mess will then have to dispose of these assets."

The rising distress is putting pressure on lenders, which are starting to reach out and ask for opinions of values where the debt on an asset is impaired, said Lynn LaChapelle, managing director of capital markets at Jones Lang LaSalle in San Diego.

"We think 2010 is going to be the harbinger of the banks," LaChapelle said.

While more California office transactions closed in the fourth quarter than any other quarter or product type in 2009 with $1.18 billion in transactions, the Los Angeles industrial market posted the biggest quarterly number in the fourth quarter for any market the entire year with $322 million in transactions, according to Real Capital.

As for the lowest performers, Real Capital breaks the state up into 14 major subregions for each of the four major real estate property types, including some markets like Montrerey that traditionally post small numbers of large closings.

Among that group of 56 markets, 16 saw no transactions of $5 million or more in the final quarter of 2009 and 12 saw no transactions of that magnitude close for the entire year.

Seller Financing: It's All About the Structure
在難以貸款的情況下，賣方借貸給買方成為重要的貸款渠道

By LESLIE LUNDIN and JOHN TROUGHTON

The grim reality of the commercial real estate market circa 2010 is that reliable widespread and reasonably priced financing for anything other than Class A properties simply does not exist. In its absence, seller financing and/or debt assumptions have become a mainstay for the majority of transactions.

Creativity abounds and with the right financial structure, deals can make sense - in particular, sales/purchases of low- or no-leveraged real estate. In this narrow context, the viability of the transaction will depend on not whether financing is available but, rather, whether the buyer has a sufficient cash deposit, which will typically be in the range of 20 to 40 percent of the purchase price, to permit the seller to satisfy existing obligations including any tax exposure upon the sale.

Unfortunately, while seller financing does not allow for the instant monetization of the value of any particular real estate asset, for the next few years market illiquidity and failed deals will continue unless sellers are willing to participate in financing the sale of their own properties.

Seller financing is not new. Rather, it is a financing mechanism that in recent years fell by the wayside and has been overshadowed as plentiful, easily obtainable, flexible and inexpensive credit flooded the market. Seller financing along with sale leasebacks - both tools taken from the commercial real estate world - were invaluable to Wall Street private equity firms, which used them as part of leveraged buyout financing structures in thousands of takeovers. It is now time for the commercial real estate world to rediscover seller carry-back financing as an acceptable means of creating market liquidity and completing transactions.

In many cases, seller financing may be the quickest way for a seller to maximize the value of property and at the same time realize enough present capital to address short-term liquidity needs the seller may have. In the case of land or real estate assets with high vacancy or redevelopment potential, seller financing may be the only way to complete a transaction for more than a distressed price. Even if the net proceeds are only 10 to 20 percent of the total value of the real estate, that percentage may be sufficient to allow the seller to carry other real estate assets, pay operating costs or even take advantage of the current climate to consummate other deals.

Seller financing can be a creative deal structuring tool. Within each structure, the seller will have flexibility on interest and amortization. There are many types of seller financing, including the following:

- In a whole asset sale, the seller may a) take the place of the senior debt or cover shortfalls between senior debt and equity by taking a mezzanine position, or b) agree to a sale leaseback of the property.
- In land development or project redevelopment, the seller may carry back senior debt and move into a mezzanine debt or equity position by subordinating to the construction loan (as well as the requirement to enter into an intercreditor agreement favoring the senior debt). The seller may want to retain the right to repurchase the property upon entitlement or, alternatively, a profits interest in exchange for a lower purchase price or better loan terms.
- An alternative commonly used in retail development or in very constrained high-value areas is for the seller to enter into a long-term ground lease of the property. The main difference between a long-term ground lease and seller financing is that the seller maintains ownership of the property and may be

entitled to the reversionary interest of the improvements constructed on the property at the end of the ground lease or a demolition fee.
- In some transactions, it may even make sense to couple the seller financing with a lease back by the seller. This is ideal when the goal is to free up liquidity by selling a principal asset that is used by the seller for operations.

Seller financing can be very attractive and a lucrative solution in the absence of covenant-light loans and highly leveraged debt. However, one must be aware that removing one of the key participants from a real estate transaction has both advantages and pitfalls. There are nuances specific to these transactions, good and bad, that users of traditional debt and equity are not accustomed to considering. The seller is carrying back debt for a reason - the seller is not necessarily your ally. It is important to consult with business professionals, including attorneys, accountants and real estate brokers who have experience in these transactions. Unique issues to seller-financed transactions include:

- If the seller still occupies the property in a sale leaseback transaction with a seller carry back, the seller effectively controls the cash flow and a substantial part of the value of the property. The lease is as important as the lending documents in structuring the transaction and protecting against default.
- If the seller does not occupy the property, the buyer using seller financing should be aware of the potential for moral hazard, the requirements set out regarding the same in the loan documents, and guard against default. Representations and warranties may not be as rigorous as traditional lending transactions (the thought being the seller knows the risks of property ownership better than the buyer).
- In the absence of true third-party due diligence that a lender would perform, the buyer is on his or her own to make sure that adequate due diligence is performed to protect interests and proceed with the planned use and development of the property.
- Sellers can provide attractive credit with acceptable interest rates to buyers that may cause them to pay a higher price for the property, even excluding loan fees. However, debt payment is often required in a shorter timeframe than conventional financing.
- Sellers participating in a whole asset sale may over-restrict or over-enforce buyers' covenants in a default situation.
- Recourse takes on a different ramification; indeed, some states restrict recourse on seller financing under the theory that the lender should not obtain a windfall of obtaining the property back on top of suing under a guarantee.
- Seller financing can be a way to defer tax on the sale of property. If the sale qualifies for the installment method of reporting for tax purposes, taxable gain on the sale will be recognized as payments on the seller-financed note and are received versus 100 percent of the gain recognized upon closing of the sale.
- The note issued by the buyer may or may not be considered a liability that will provide the buyer a tax basis to take deductions for potential operating losses generated by noncash operating expenses, such as depreciation of fixed assets and amortization of intangibles.
- If the property subject to the sale does not perform as planned, the buyer may have problems servicing the interest and making principle payments on the note. Unlike a loan reduction to the borrower from an unrelated third party, which usually causes phantom cancellation of debt income to the buyer, the buyer and the seller can agree on a purchase price reduction of a seller-financed note, which usually does not create phantom cancellation of debt income to the buyer.

Seller carry backs can be a useful tool to complete real estate transactions that need extra financing as part of their structure. Real estate buyers and developers should continue to rely on financial intermediaries to provide third-party financing, including due diligence and covenant structuring, to assist buyers who may be considering seller financing to complete a deal. Financial intermediaries will help buyers and developers by working with sellers to revive the old reliable tool of seller financing and make it profitably in vogue.

Investors Get Creative to Place Capital At Ground Floor
在需求大於供給的環境下，望投資廉價地產的買主必須發揮想像力創造出雙贏的結果

By MANDY JACKSON (CREJ Staff Writer)

Frustrated with the lack of opportunities to acquire commercial real estate at bargain basement prices, investors are looking at alternate ways to gain access to properties.

With more demand from investors with funds that have to be deployed in a limited amount of time than there is a supply of properties or loans, pricing seems to be moving up from the basement to the first floor, but the risk remains elevated.

Phillip Nichols, a founding member of the Los Angeles law firm Pircher Nichols & Meeks, said investors are looking at many different strategies for buying a piece of the debt on properties from lenders or an interest in properties held by borrowers. The end goal is to own the real estate or at least earn profits from the asset.

Investors find that some lenders are more receptive to such agreements than others. In working with borrowers, investors base their decisions to enter into partnerships on how far under water the property's value is compared with the amount of debt on the asset.

"The times when those opportunities are the greatest is when the property is worth the loan amount or a little bit less than the loan amount, where a loan is coming due and new equity will allow the borrower to favorably restructure the loan," Nichols said. "I'm not seeing much of that yet, but it theoretically ought to be happening."

There may be more of those kinds of transactions in 2010 as private equity looks for places to invest its capital and borrowers attempt to restructure debt.

"I think it's definitely possible to come into deals with a new angle," Nichols said. "There's a lot of due diligence required in that."

Investors have to understand the real estate and all of the documents that govern the position they might buy.

"Many property owners with dry powder are going to have to decide where to put their dry powder," Nichols said. "Many real estate funds that own a substantial number of properties will have to decide which of those existing properties are appropriate for investing new money in. Some of that will depend on the documents, including in the cases of joint ventures, what the terms of their joint ventures are."

Chris Grey, managing partner at El Segundo-based Third Wave Partners LLC, said he hasn't seen much creativity yet in the commercial real estate market.

"Sometimes creative means creative and sometimes it just means more aggressive," Grey said. "I think buyers are getting more aggressive and are willing to effectively pay more for the asset."

He said sellers, especially lenders, are in deal-making mode more than they were last year, but every property that comes to market has a multitude of buyers. Many of those investors are willing to increase their bids just to win deals.

"There's a lot of perception that the market's bottomed and it's going up from here, so I think a lot of buyers are looking at it from that perspective," Grey said. "I personally don't see that."

Getting in at the Ground Floor

Investor groups that hoped to buy commercial properties on the ground floor, in terms of pricing, are digging around in the boxes in the basement in search alternative approaches to real estate ownership and finance.

Steve Rowland, senior director at Cushman & Wakefield in San Diego, said there is ample discussion of creative deal structures, but few have been executed to generate significant transaction volume.

The gap between sellers' asking prices and buyers' expectations is still so wide that it is difficult to close deals, according to Michael Roberts, associate director at Cushman & Wakefield in San Diego.

"Investors have been trying to get creative with debt structures and we haven't really seen the rubber hit the road," Roberts said.

But in a sale valued at $9.3 million in Reseda, Colliers International recently directed a note sale and foreclosure for a 53-unit apartment asset at 18557 Saticoy St.

Han Widjaja, associate in the downtown Los Angeles office of Colliers, represented the buyer, a private investor named Alon Global Saticoy LLC. The discounted purchase price was well below the replacement cost for the property.

Widjaja introduced his client to the owner of the apartment complex, who also was his client. The owner explained that his lender intended to sell his loan. Both parties agreed to the basic terms of a loan sale that would involve the buyer completing a deed in lieu of foreclosure concurrent with the acquisition of the mortgage note.

"The [final] price was somewhat on par with what my client was offering, if not higher, but the deal hinged on the bank knowing the buyer would have no problem with the owner," Widjaja said.

He said the ability of investors to negotiate a loan purchase depends on the bank that's involved. Some financial institutions prefer foreclosures over note sales while others don't want to take back property and hold real estate on their books.

Lenders to the Rescue

There also are lenders who prefer to work out new loan terms with borrowers to recover more of their investment at some point in the future when property values improve.

"While we may not see straight asset sales, we will see new capital come into existing deals in a recapitalization manner," said Jeffrey Davis, executive vice president at Jones Lang LaSalle Hotels in New York.

That "rescue capital" will help existing hotel owners who face challenges servicing their debt as hotel occupancy, room rates and revenue decline. The new equity will help pay off maturing debt or pay down a portion of their debt so hoteliers can renegotiate loan terms.

Mathew Comfort, senior vice president in real estate investment banking at Jones Lang LaSalle Americas Inc. in New York, said investors are making rescue capital available due to the tough investment market of the past 12 to 24 months and the reluctance of hotel owners to sell assets at current values. Owners retain a stake in the properties with the chance of sharing in future appreciation when values improve.

However, the ability to negotiate such agreements depends on many factors, including the condition of the property, market performance, the type of lender, the lender's own balance sheet issues and the existence of secondary lenders.

Lynn LaChapelle, managing director of capital markets at Jones Lang LaSalle in San Diego, said she has seen private investors as well as participants in syndicated investments seek out third-party capital to fund tenant improvements, broker commissions and otherwise keep the property running when the initial partners in the asset don't have the capital for those expenses.

Once the third-party money source recoups its capital plus a certain return on its investment, the original property owners get whatever profit is left over.

Investors also are looking at various strategies to help borrowers renegotiate loans while helping lenders avoid writing mortgages down on their balance sheets.

For example, on a property purchased for $400 per square foot with a loan at $300 per square foot, where the asset's value is now $250 per square foot, an investor might agree to put in equity to rewrite the first loan at $250 per square foot and fund improvements and maintenance at the property in exchange for keeping the management fees and a preferred return after the lender's investment is repaid as the market improves and the property's value increases.

"If the value in two years is $270, then the lender gets some money back, maybe more than if the borrower just gave the property back," LaChapelle said. "It's a creative way of kicking the can down the road. The lender doesn't have to recognize the loan writedown initially."

Finding the Financial Keys

As has been the case since the credit crisis took hold in 2008, financing is the key pushing transactions through to close of escrow.

John Stueber, president of Carlsbad-based Summit Capital, said seller financing remains an attractive way to close transactions in 2010, but the amount of financing provided by sellers is growing as they try to clear assets from their books.

"We have also seen multiple banks step together on a transaction in a partnership arrangement," Stueber said. "Getting two banks to come together on a loan and share the risk is difficult to do."

But with the lending limits that financial institutions face, the best way to finance some transactions is for multiple lenders to fund a single loan.

Andrew Kirsh, partner at Raines Law Group LLP in Beverly Hills, recently closed a transaction in which the seller provided financing to the buyer and wrapped it around the existing debt on the properties.

"It served as a bridge for the buyer to have time and not be under the gun in trying to close but be able to take title to the properties, while recognizing in today's market that he was not going to get financing in 30, 90 or even 180 days," Kirsh said.

Without the wraparound financing, there was no way the buyer would have been able to tie up the portfolio of assets in three states quickly. The properties were mostly new construction, but they were leased to a tenant with high credit quality, which limited the discount on the portfolio's value.

"The buyer took title, the seller sold the property and the banks have what they hope is a realistic exit strategy, realizing that the property needed to get sold for them to get paid," Kirsh said. "Because the purchaser was not going to be able to line up their financing in the short term, everyone recognized they had to think creatively here."

He said the transaction is a harbinger of things to come, as buyers, sellers and lenders realize they need to work together to see transactions close.

Steve Lurie, a partner at Greenberg Glusker Fields Claman & Machtinger LLP in Los Angeles, recently helped a client take over the title on a distressed asset at the same time that the investor purchased the first mortgage.

The lender did not want to foreclose and take possession of the real estate. After the lender negotiated a deed in lieu of foreclosure with the borrower, the deed in lieu was assigned to the new investor on the same day it purchased the senior loan.

"We were able to accomplish our objective without becoming a lender and the lender accomplished its goal of not owning the property," Lurie said.

If the bank foreclosed and became the property owner, it would have to market the asset to all potential investors, which might drive up the price for the real estate that was a strategic asset for Lurie's client's portfolio.

"The whole deal ended up taking about five months," he said. "It could've gone much faster, but the borrower was not always cooperating. It was tough to get the borrower over the finish line."

Lurie is working with clients with funds to acquire properties who plan to buy assets using only cash, so that they can close transactions quickly and win more deals. Other groups that have raised capital are looking to fund loans where other lenders are not willing to provide debt.

"People are finding places, niches in the marketplace that are not being filled, and they're looking to fill it," Lurie said. "They see an opportunity and they're trying to take advantage of it."

Multiple Levels of Business

Aliso Viejo-based CT Realty Corp. has remained an active investor in the past year by buying loans from banks. In a separate joint venture, the company has a program for investing capital from New Market Tax Credits allocated to the firm four years ago.

In January, CT Realty bought a portfolio of performing and nonperforming office and industrial mortgages secured by properties valued at more than $10 million from a Southern California bank. Prior to that transaction, the firm bought $33 million of loans from Lehman Brothers last year and has repositioned, refinanced or assumed ownership of 75 percent of the Lehman portfolio's assets.

"We're acquiring debt, primarily nonperforming, from financial institutions for the purposes of owning the real estate or helping the borrower to cure the debt," said James "Watty" Watson, president and chief executive officer of CT Realty.

In the past year, the firm has acquired more than 120 loans. With each mortgage, CT Realty tries to help the borrower pay its debt before making the decision to foreclose.

In another active line of business, the company has a joint venture called CT/KDF Community Development Partners LLC with Newport Beach-based KDF Communities.

The partners received a $90 million allocation in 2006 from the New Market Tax Credit program administered by the Community Development Financial Institutions Fund under the U.S. Department of the Treasury. CT/KDF has used its tax credit financing to fund projects in communities in need of redevelopment and jobs.

Sarah Woodward of Tustin-based Woodward Realty Capital joined the joint venture last year. Woodward said the partnership has provided financing to replace construction loans on new development in qualifying communities along with capital to complete construction.

"When I figured out we could do that, that's where my light bulb went on," she said. "There are so many situations now where the construction loan has matured. We're using the money to give an incentive to the existing lender to do a term loan and reduce their loan-to-value with equity from the New Market Tax Credits."

CT/KDF is working on a deal in which a borrower has $20 million invested in a project on which its bank has a $10 million loan, but the property's value is now $10 million. To reduce the loan from a 100 percent to a 65 percent loan-to-value ratio, CT/KDF is looking to provide $2.5 million in equity along with a $1 million contribution from the borrower. The bank now is able to write a new five-year loan at $6.5 million.

"Quite frankly, the most difficult part is getting various lenders up to speed on how the program works," Woodward said. "Once they realize it solves their problem and it is a government program that's something they should be doing, it puts them in the position of lending, which is what the [Federal Deposit Insurance Corp.] wants them to do."

CT/KDF has invested $54 million of its original $90 million allocation of New Market Tax Credits and has $36 million left to invest. The balance of the funds is expected to be invested in retail, office and some industrial projects.

In October, the venture provided $15.5 million to finance the mostly complete Citrus Crossing shopping center in Azusa and $36 million in new financing for completion of the Raymond Residence condominium development in downtown Pasadena. Sales of the condominium units will generate income that CT/KDF can reinvest in additional projects.

"I think there's tremendous creativity and flexibility," said Davis of Jones Lang LaSalle Hotels about investors' attempts to do deals and lenders' desires to work through troubled mortgages in the current market.

"There's a lot of new ground," he said. "There's no proven set formula on how to best get things done."

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Signs of Confidence Emerge Among Homebuilders
住宅發展商回到加州市場，空地價值呈上揚趨勢

By KARI HAMANAKA (CREJ Staff Writer)

At the beginning of the summer in 2009, a noticeable shift in finished-lot acquisitions began taking place, pushing up land values and leading to speculation that residential homebuilding may finally be on the cusp of a turnaround.

"If the homebuilders are willing to make investments, it shows some stability and confidence in the marketplace," said Norm Scheel, principal at The Hoffman Co. "I think it's a good sign."

However, the industry is closely monitoring foreclosures and resales, which stand to throw these signs of activity off balance.

"Everyone is watching what's happening in the resale market because the resale market today on used homes has a large degree of foreclosure activity," said Michael Vairin, president of the Builders Development Group Inc. and president of the Building Industry Association of Southern California. "There appears to be a flattening or a stabilization, but the resale market is an area that needs to be watched because that market has a tendency to push down values significantly."

In the short term, at least, the trend is seen as positive given three years during which values on land and houses fell.

"The homebuilders haven't really acquired any land in three or four years, so they've built through most of the inventory that they've had or tried to sell properties," Scheel said. "Now the homebuilders are coming to a point in time where their land positions are so small that they're having to go out there today and start buying land for future development."

According to the California Association of Realtors' January report, the state's median home price increased 15 percent from the prior year while home sales decreased 10.6 percent.

"Despite the year-to-year decline, sales remained above the 500,000-unit threshold for the 17th consecutive month, holding steady at pre-peak levels from early in the last decade," said Steve Goddard, CAR president.

CAR's Unsold Inventory Index, which indicates the number of months needed to deplete the supply of homes on the market at the current sales rate, was 5.8 months down from 7.3 months for the same period a year ago, and the median number of days it took to sell a single-family home was 33.8 days in January compared with 50 days a year ago.

Lot Values Jump

As publicly traded builders pushed into the market and began closing deals in the third quarter of last year, values jumped - dramatically in some cases.

An annual report by The Hoffman Co. surveying Southern California found lot values doubling or even tripling in some areas.

For example, by the end of 2009, finished lot values in the Dairylands area of Riverside County saw a year-over-year increase of 45.5 percent. The floodgates really opened during the summer with Standard Pacific Homes' acquisition of 96 lots in the Eastvale market, which is part of the Dairylands area.

"That was a little bit of a wake-up call for some of their peers out there," Scheel said, "and then a number of other publicly traded homebuilders entered the scene at that point."

After that, the market saw interest from Meritage Homes, Richmond American Homes and KB Home.

In Northern California, bidding action at Fiddyment Farm is what many point to as the start of homebuilder reemergence in that market.

In the spring, Meritage acquired 41 lots in Fiddyment Farm from Signature Properties for a $66,000 per lot. A few months later, in June, K. Hovnanian purchased 41 lots for $68,000 each. When an August bid came in for $103,500 per lot for 77 lots, Signature halted on the sales. Instead, the developer decided to start building.

"At that time, a few people had been looking, but no one had closed on anything," said Steve Smiley, a principal in the Danville office of Meyers Builder Advisors. "They [Meritage] were one of the first ones to do something and close as well. Now we're seeing all the public builders trying to buy lots and they're all pretty aggressive."

But aggression in Northern California has hardly resulted in the same increase in values that markets such as the Inland Empire experienced last year. This, Smiley said, is mainly because the lots that have sold have all been relatively similar with price tags hovering around $70,000 per lot.

"They're going up a little bit, but not significantly," he said. "You don't have that many finished lots. If you had more, these guys would probably bid those up a bit."

Strategy Emerges

Although the rush to buy finished lots has been going on for several months now, it is only occurring in the A locations.

"They're closer to employment. They're closer to the freeway and these are areas that don't have as much [finished lot] inventory," Scheel said.

In Southern California, activity is taking place in Riverside County not only in the Dairylands but also along the Interstate 15 corridor from Rancho Cucamonga down to Corona. The Temecula and Murrieta markets also have seen activity along Interstate 215.

In Northern California, the State Route 65 corridor in Rocklin, Roseville and Lincoln is where the deals started. That activity has since spread into Elk Grove and Rancho Cordova.

In contrast, more outlying locations such as the Victor Valley or Coachella Valley are not likely to see the publicly traded homebuilders reenter the market for some time.

In 2009, finished-lot values fell 18.2 percent in Victorville, according to The Hoffman Co.'s land index. Values in the city of Coachella fell the most of any other Coachella Valley city by 23.1 percent.

"From a demand-driver perspective, we look to where the jobs are and in both cases [the Victor Valley and the Coachella Valley] the jobs tend to be back down the hill toward Ontario and Rancho Cucamonga," said John R. Shumway, principal, in the Newport Beach office of The Concord Group.

Tertiary markets will continue to attract the interest of private investors and perhaps some of the smaller, private builders that do not have the same access to capital as a public builder would.

"If someone's buying a paper lot deal in a tertiary-level market area, they're probably buying it for a much lower price and a strategy of buy and hold and let the market catch up to that geographic market," Vairin said.

Scheel added that existing inventory in the A locations would have to be absorbed before public builders start buying up lots in outlying markets.

All signs point to the business strategy of the publicly traded homebuilders to continue investing in finished lots and rebuilding business activities that had been on hold for the last few years.

Over the course of 2009, Arizona-based Meritage Homes, which builds in California, Arizona, Colorado, Florida, Nevada and Texas, reported it spent $150 million on more than 4,000 new lots in its fourth-quarter report. As of the end of 2009, the company estimated it had about 3.2 years worth of supply.

In its end-of-the-year report to investors, Hovnanian Enterprises reported that it spent the third and fourth quarters buying some 4,000 lots.

And Standard Pacific reported in its fourth-quarter results that it spent $35.3 million on land purchases during the quarter.

Dwindling Inventory

With renewed interest in lot acquisitions, finished-lot inventory has begun to dry up in some places.

An example is Riverside County's Dairylands, where much of the finished-lot demand has centered.

"The lot supply in the Dairylands has gone down very quickly because, when you look at the [I-]15 corridor, the Dairylands is the premiere area and people are looking for well-located homes for the first-time buyers and first move-up families," said Jeffrey Meyers, principal in the Corona del Mar office of Meyers Builder Advisors.

Scheel noted that when builders acquired lots in the Eastvale area they absorbed a large portion of the available supply.

"There were only three or four lender deals with lots that weren't in the hands of the ultimate homebuilder," Scheel said. "Those lots were acquired by Standard Pacific Homes, KB Homes and Richmond American. That really took the bulk of improved lots off the market."

As builders compete for the remainder of the finished-lot inventory, interest will inevitably turn to paper, or unfinished lots, but that is a trend that has not taken center stage among the public builders' business strategies.

"We're definitely making a big dent in the existing finished-lot inventory to the point that we would say that by mid-year we'll probably see a tapering off of this activity," Shumway said. "Then we think there will be a hiatus for a little and then those who wish to have a longer horizon will look at paper lots."

Shumway said he sees some paper lot acquisitions but only as part of larger acquisitions that include a mix of raw, finished and paper lots in the deal.

Meyers said for right now, it is mainly the private builders looking at unfinished lot purchases.

"It's early, but we're just starting to see that take place," he said. "Some of the builders are starting to discuss it. It's privates that are picking those up. The large institutional, capital funds have a minimum deal size, and because of that a lot of these paper lot deals are off their radar."

However, there is some movement by the public companies. Earlier this year, a Lennar-controlled partnership acquired 714 unimproved lots in the Rancho Bella Vista master-planned community. The land is located near Temecula, in French Valley.

And in the coming months of 2010, Meyers said he expects at least four or five major land deals to take place in just the Inland Empire alone.

More specifically, many are awaiting announcement of a buyer for the stalled Summerly at the Lake master-planned community formerly owned by John Laing Homes. The project, amounting to some 1,500 lots, is in the hands of the bank.

The sale could mean good news for the city of Lake Elsinore, but the overall sentiment of the housing industry is wait and see.

"The guys that you're seeing doing a lot of work right now are just the public builders," Smiley said. "Is it going to be the public builders only, or will we eventually see some private builders? I don't know. I think everybody is still kind of cautiously optimistic about the market. If you're a public builder, your job is to build houses, and that's what we're finally seeing happen."

10-Year Plan Indicates Post Office Closures
未來十年美國郵局可能會持續關閉分局

By Andrew Deichler (CoStar)

Faced with a probable $238 billion shortfall over the next 10 years, the United States Postal Service has outlined a new plan to cut costs and return the agency to long-term profitability.

The Postal Service's new plan outlined several additional actions to combat this shortfall, the most glaring of which involve closures, layoffs and rate increases.

Anticipating a drop in activity that would see mail volume fall from 177 billion to 150 billion in the next 10 years, the Postal Service has considered more than 50 possible strategies to combat surmounting issues. Mail volume continues to decrease (in particular, first class mail is expected to drop 37 percent), while health care and delivery costs continue to rise.

"The crisis we’re facing gives us an historic opportunity to make changes that will lay the foundation for a leaner, more market responsive Postal Service that can thrive far into the future," said Postmaster General John E. Potter.

No action would be the most costly action of all, USPS said. Keeping things status quo would likely result in the aforementioned $238 billion shortfall by 2020. The Postal Service said it believes it can save about $123 billion over this period of time by eliminating hundreds of work hours and aggressively controlling costs. But that still leaves a $115 million loss unaccounted for.

USPS plans to invest more in its self-service kiosks and website, as well as provide more services at retail locations such as grocery stores, pharmacies and office supply stores. This will likely lead to the agency closing many of the 170 post office locations that it said were under review last year.

Additionally, the Postal Service mentioned that it would be establishing a "smaller, leaner workforce," through labor negotiations and likely retirements. More than 300,000 of its employees become eligible for retirement in the next 10 years.

A price increase has also been proposed for 2011, which is proving to be unpopular with consumers. The Postal Service also said it would base prices for market dominant mailing products on overall demand, rather than capping each individual mail class.

A restructuring of employee health benefits and retirement funds has also been discussed, as well as cutting Saturday mail delivery.

"Lifestyles and ways of doing business have changed dramatically in the last 40 years, but some of the laws that govern the Postal Service have not," said Potter. He stressed that these laws need to be updated, to reflect changes in America's business culture and technology.

Men's Wearhouse Identifies 145 Stores for Probable Closure
Men’s Wearhouse 可能關閉 145 家店

By Sasha M Pardy (CoStar)

During 2009, Men's apparel retail chain, Men's Wearhouse, opened 6 new, but closed 41 stores. Due to geographic overlap caused by its 2006 acquisition of the AfterHours Formalwear chain, the company has identified 145 stores that it would likely close.

In a conference call with analysts on March 10th, George Zimmer, Chairman & CEO said, "what we have been experiencing since the acquisition over three years ago, is that customers would rather shop in a regular Men's Wearhouse store than a Men's Wearhouse and Tux store. So there are hundreds of these stores that are very close to each other, and there are about 145 stores that we have right now that we think should probably close when their leases expire or before. We have already closed 35 tuxedo rental stores in 2009. So it is reasonable to assume that we will be closing well over 100 tuxedo rental stores. However, this is going to strengthen our business as opposed to weaken it, because we have such a high rate of recapture. Most of those customers are just going to the nearest Men's Wearhouse store."

The combination Men's Wearhouse and Tux stores typically range between 1,000 and 4,000 square feet and are primarily located in regional malls and lifestyle centers.

Shopping Center Execs Voice Improving Confidence Despite Major Challenges
購物商場負責人認為購物商場在逐漸復蘇，但仍有 40%的主管預計真正的復蘇要到 2012 年以後

By Sasha M Pardy (CoStar)

The International Council of Shopping Centers' (ICSC) latest Shopping Center Executive Survey showed that shopping center executives' confidence in the present economic situation and expectations for the future, while muted, are better and improving.

ICSC aggregates executives' responses in an index based on their opinions regarding sales, customer traffic, occupancy rates, rent spreads and capitalization rates. The latest results show that the index measuring current business conditions had risen fairly steadily from April through December 2009, then dipped slightly in January, to make a marked recovery to 44.8% in February, which is the highest that ICSC's Current Situation Index has been since the recession began in January 2008. However, any reading below 50% still indicates deteriorated conditions, said ICSC, although shopping center executives feel that the pace of deterioration in retail real estate has slowed significantly.

The index measuring shopping center executives' expectations for the next six months came in at 51.4% in February -- a measure indicating improving conditions. This is the first time the Expectations Index has been over 50% since August 2007. Still, Retail Real Estate Strategist Suzanne Mulvee of CoStar Group's Property and Portfolio Research (PPR) said she was somewhat surprised that the Expectations Index didn't produce an even higher reading.

"There are still some laggards, but most retailers are posting impressive (sales) improvements. These improvements are off of very low lows, but the change is pointed." Mulvee attributes the light optimism to shopping center execs' continued struggles with vacancies and rents rolling down.

Having said that, shopping center execs are expecting some improvement in occupancy rates, followed by customer traffic, retailers' sales, and rent spreads by fall. In fact, executives' expectations for occupancy rates and customer traffic haven't been this optimistic since May 2007.

Access to Capital

Also in this month's survey, ICSC asked shopping center executives to identify the top three greatest challenges currently facing the industry. Not surprisingly, the top concern among respondents remained "the need for the capital markets to open up and provide lending."

Stephen Lebovitz, President and CEO of mall REIT, CBL & Associates (CBL), recently said that the capital markets have already begun opening up, in the form of life insurance companies and banks expressing a lot of interest in stabilized shopping centers in stable markets.

Art Coppola, Chairman and CEO of Macerich, added that he expects the capital markets to pick up on Class B shopping centers soon. "There’s significant capital that realizes it’s not going to be able to invest in the A malls and is beginning to look very closely at the B malls and I think you are going to see a lot more activity in our industry this year in the B mall sector," he said. "There is a very significant amount of capital that now realizes that there is definitely going to be a real scarcity of opportunities for them to invest that capital in a very desired space and I think that’s what’s caused an emergence of capital that’s beginning to become interested in the B mall type of

category," he added.

David Oakes, Senior EVP and CFO of Developers Diversified Realty, has also seen some improvement in the transactional markets. "The markets have become somewhat more driven by a world that's a little easier to underwrite in terms of go forward expectations. The lending environment has improved somewhat, not for very high value loans, but for loans that are going to have a reasonable amount of equity in front of them. There is an ability to borrow against new product. Responsible people are not underwriting on an un-levered basis," he said.

Unfortunately, it does not appear likely that access to capital for CRE borrowers is going to improve any time soon.

In its 2010 National Retail Report, released this week, Marcus & Millichap said it is expecting another year of "tight financing", or "constrained lending." However, it does expect life insurance companies and conduits to ramp up lending. "Banks will remain the most active source of traditional financing," they said. In agreement with Lebovitz at CBL, Marcus & Millichap said that lower-quality shopping centers and/or those in secondary and tertiary locations will continue to face the most financing hurdles.

"There are signs of the capital markets opening up, but it's coming in small, pocketed areas," noted PPR's Mulvee. "On the debt side, you're seeing some lending by life insurance companies; but the problem is that they're lending on very select assets. Banks are saddled with maturing debt and they can't recycle the capital to lend again, so they're not a source of debt. When you think about the size of the debt market, obviously the banks are a much bigger slice than life insurance companies. It is a good sign that REITs are accessing the capital markets; but your regular private equity real estate player doesn't have that access to capital."

Vacancy & Rent Challenges

The second-biggest challenge for executives answering ICSC's survey identified "the need to retain tenants while simultaneously maintaining competitive rental rates," as their second-greatest issue currently.

One ICSC panelist said it is a challenge to stay "occupied at appropriate rates, as many tenants are negotiating for lower rents before lease is up."

It's no surprise that vacancy continues to be a top issue for shopping center owners, as ICSC's respondents agree that occupancy rates are still in a deteriorated state. However, Marcus & Millichap noted in its 2010 National Retail Report that the pace of rent declines is easing. "Increased vacancy triggered co-tenancy clauses and rent renegotiations among many retailers in 2009, causing effective rents to retreat. Though not as severe as last year, persistently soft conditions in 2010 will push down asking rents" further, said the firm. "The bulk of rent declines this year will be in properties built since 2005, where rents are [much] higher than average market rates. Among older properties, operators should be able to largely sustain current rents."

PPR is forecasting retail vacancy to peak out in the middle of this year, with very mild improvement thereafter in 2011. Additionally, PPR forecasts that retail asking rents will decline another 5.5%, followed by another 1.6% decline in 2011, follwed by muted improvement in rental rates thereafter.

Declining Property Values

Shopping center executives answering ICSC's survey had strong hopes for favorable cap rates in November, but those expectations have withered every month since, with owners still indicating deterioration.

"Property prices continue to diverge by asset quality and market, with cap rates for the best multi-tenant assets

starting in the mid-7 percent range, about 100 basis points less than the national average for all shopping centers. Properties with high vacancy or near-term lease expirations may need to be underwritten at cap rates around 10 percent to generate interest," according to the Marcus & Millichap report.

"Values will keep falling through the end of the year, and it will take even longer for operating income streams to recover," observed Mulvee in PPR's most recent Retail Market Performance Report. However, "The majority of the value write-downs have already been realized, and rising yields are starting to make this property type a bargain," she added.

Likely intending to take advantage of the bottom of the market, 50% of shopping center owners responding to CBRE's survey said they planned to acquire another shopping center over the next year, while 42% said they would hold steady and only 8% said they would likely sell their property.

Foreclosure Concerns

Marcus & Millichap said in its 2010 National Retail Report that foreclosure concerns among retail property owners carry some weight. "At the start of this year, retail CMBS delinquency neared 5.5 percent nationally and hit double digits in a few Sun Belt and Midwestern markets. These figures will rise further as 2010 progresses and fundamentals continue to weaken, creating difficulties for owners already stretching to cover debt-service payments. Loans originated from 2005 to 2007, a period marked by record-high prices, lax underwriting and above-average leverage, will continue to account for an outsized share of distress. Maturing debt poses some risk, but lenders have become increasingly amicable to loan modifications and extensions. Most lenders will remain focused on workouts this year, avoiding additional losses as balance sheets heal."

"These execs that know they're underwater are hoping the banks will continue to 'extend and pretend' and not force their hand until they can get an equity injection into their property," said Mulvee. Whether or not the banks will continue to pursue this policy decision is a major question facing the industry, said Mulvee. "The FDIC is starting to indicate they want to clean things up a little bit, but are the banks healthy enough to weather these losses? It's very much up in the air," she added.

Impact of Regulation

Shopping center executives responding to ICSC listed their third greatest concern as "political uncertainty and intrusion by the government" threatening the stability of the public sector, which execs feel greatly affects the ability to lure capital investment into the industry.

"Regulation is an issue for the industry because it will impact capital flows. If they over-regulate the stock market or the banks, that could stop capital flowing and the availability of debt," said Mulvee.

According to Marcus & Millichap, the greatest short-term hurdle is a transition from government- to corporate-led expansion. The gain in gross domestic product (GDP) during the third quarter of 2009 was driven largely by the Cash for Clunkers program, and the First-Time Home Buyer Tax Credit has been a key supporter of home sales. The 5.7% spike in the fourth quarter reflected better 'real growth', and was driven by more modest inventory reductions and a rise in fixed investment. Despite the recent acceleration, companies will likely remain conservative in spending and hiring for most of this year.

"The silver lining in the cloudy short-term outlook is a combination of low inflation, low interest rates and a largely accommodative Federal Reserve still focused on facilitating a sustainable recovery," said Marcus & Millichap in its 2010 National Retail Report.

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The Impending Recovery

Shopping center executives told ICSC in last month's survey when they believe the recovery of the commercial real estate market will *begin*. Responses were segmented, with 27.3% of execs expecting the recovery to begin this year, 33.3% predicting it will begin in 2011, and 39.4% not planning for a recovery until 2012 or later.

"As the economy builds momentum in the latter part of 2010 and into 2011, demand should strengthen, while the construction outlook will alleviate supply risks. This may allow fundamentals to begin a recovery in 2011, led by markets with historically tight vacancy rates, such as San Francisco, San Diego and Washington, D.C," said Marcus & Millichap in its 2010 National Retail Report.

"The question here is how you define 'recovery," said Mulvee. "If you define recovery as improving demand, then this is the year. If you define it as stabilizing slightly higher rents or slightly higher values, then we're still a couple years away. Commercial real estate lags the economic cycle. So if you believe the economy recovers this year, then you still have 6-12 months before commercial real estate starts to recover, if not longer."

Depressed apartment market attracts adventurous investors
蕭條的公寓市場吸引風險投資者

By Morris Newman

It's a cold winter for apartment investors in Los Angeles County: Rents are down, prices have fallen and vacancies are way up.

Deal velocity -- broker slang for sales volume -- is a thin stream compared with the overflowing activity of 2005 and '06, the most recent boom years.

But to smaller investors like Johnny Caal, with cash in hand and a taste for risk, the weather is delightful.

This is the best market I've seen since 1994," during the previous recession, said the Van Nuys-based investor, who owns six small rental complexes in L.A. County. He is in escrow on a six-unit building in Van Nuys.

Falling apartment values bring out the so-called bottom feeders, or small investors in search of inexpensive property.

In 2009, the bottom feeders and other small investors ruled the investment market in multifamily housing.

Apartment complexes with five to 49 units captured a lopsided share of new investments in multifamily properties in Los Angeles County last year: There were 552 sales, according to figures compiled by Marcus & Millichap, a national real estate brokerage based in Palo Alto. By comparison, only 15 complexes with 50 to 100 units sold, and 16 with 100 units or more sold.

Many people think of small apartment complexes as those with fewer than 15 units. California law requires larger complexes to have an on-site manager, an added cost that some investors shun.

Overall, apartment-house prices have been falling for the last few years: They slipped to an estimated median of $128,500 a unit last year, down 4% from 2008, Marcus & Millichap data show. The median price is the point at which half sold for more and half for less.

The largest complexes are favored by institutional investors such as pension funds and insurance companies. Those big investors are sitting out the market for good reason.

Armed with professional advisors and expensive software, institutional investors want deals that conform to specific investment criteria. And owners of institutional-grade property don't want to sell in this dismal market. In other words, it's an investment stalemate.

But in the mom-and-pop market for smaller buildings, many people are eager to gain a foothold in the potentially profitable investment field. A small apartment building is often the first real estate purchase after an investor's residence.

Many small investors aren't as methodical as institutional buyers, and some are willing to accept a riskier or less profitable project so they can get into a coveted type of investment.

The current market seems almost the opposite of the boom years of 2005 and 2006.

Prices rose sharply in those years, attracting get-rich-quick investors who believed they could hold properties for short periods and sell them profitably -- regardless of the income generated by rents.

Currently, "there are more listings than buyers who are both motivated and financially qualified," says Roderick "Rick" Raymundo, a broker with the Los Angeles office of Marcus & Millichap.

Not all small rental complexes are underpriced, Raymundo says. For a small number of fully occupied, well-maintained properties in desirable locations, sellers may receive a dozen offers or more, with bids close to the asking price.

"In a market like this, there is a flight to quality, to investments that are less risky," he says.

Apartment vacancies in Los Angeles County rose to 6% in mid-2009, according to Marcus & Millichap figures. In a strong apartment market, vacancies can fall below 2%.

In a weak market, landlords cut prices to compete for tenants.

"People are lowering rents to fill up their buildings, and the decline in income probably hurts the moms and pops," says Bruce Bernard, an L.A.-based investor who owns a portfolio of buildings with 40 to 100 units each.

Discouraged by market conditions, apartment investors who bought property in the "up" market may choose not to sell, while those who are selling may stick stubbornly to unrealistically high asking prices, says Tracey Seslen, assistant professor of clinical finance at the USC Marshall School of Business.

"Some sellers are doing the ostrich thing," she says, "not really wanting to cut their losses and move on to the next phase into their investment strategy."

Rather than trying to bid down the price of expensive buildings, Caal says he is particularly interested in buying distressed properties, "because that's the best bang for your dollar."

In April, Caal bought a six-unit building that was nearly empty, with boarded-up windows. The seller was having difficulty getting rid of the property because no bank was willing to finance a sale for a building in such poor condition.

Caal says he persuaded the previous owner to carry the mortgage -- that is, to remain the official owner while Caal assumed responsibility for all expenses.

The investor repaired the property and found new tenants.

Nine months later, Caal was able to find a bank willing to make a loan on the refurbished building and complete the sale.

Caal remains interested in buying apartment complexes, and he doesn't plan to offer any of his own properties to other investors.

"I'm not selling," he says firmly. "It's a pretty crazy time to do that right now.

Recent Improvement in CRE Liquidity Welcomed, But Loan Maturities Loom Large
近期商業地產貸款逐漸復蘇，但未來五年到期的貸款會面臨難以再次貸款的問題

*By **Randyl Drummer** (CoStar)*

Commercial real estate lending has tentatively started to flow, but as any building owner will attest, credit isn't easy to obtain and the onslaught of maturing commercial mortgages is chipping away at the confidence of investors.

The challenges to lenders remain immense. U.S. banks and thrifts held $60 billion in distressed assets on their books at the end of December, up 15% from the previous quarter, and 140 institutions failed in 2009, the highest number since 1992. Another 285 are expected to fail this year. And more than 700 insured institutions were on the FDIC's problem list at the end of 2009.

Given the stress already facing the nation's banks, especially the regional and community institutions that provide the bulk of CRE lending, the peak of loan maturities will come due at a most inopportune time as the market struggles to recover from a real estate downturn now in its third year.

That was one of the chief concerns raised during a panel discussion of Deloitte's real estate practice analysts held March 4, "Improving Liquidity in Commercial Real Estate: Will Capital Markets Show You The Money in 2010?"

"If you look at all the loans that will be maturing between now and 2014, those loans are going to be maturing into a weaker market than when they were originated, and that's one of the challenges we see ahead of us," said Constantine Korologos, managing director, Deloitte Financial Advisory Services LLP. "Because of 'pretend and extend', a lot of those loans scheduled to mature in 2009 didn't get refinanced, but they [instead] got pushed out into future years."

While commercial mortgage-backed securities (CMBS) don't reflect the lion's share of maturing loans - many more are held by commercial banks - CMBS loans made between 2005 and 2007 had the most aggressive loan and property valuations. These loans are coming due over the next five years, with the peak-of-the-market 2007 loan vintages beginning to hit in 2012, around the same time that many market participants expect sustained recovery in property fundamentals to kick in -- and those maturities "will present a problem" to the market, Korologos said.

Korologos said about $200 billion in CRE mortgages originated in the first half of 2007 before the "the music stopped" abruptly in the third quarter 2007. Since then, key lenders swallowed up in the financial crisis have disappeared from the market.

In 2007, Lehman Bros., Bear Stearns, Washington Mutual, Merrill Lynch and others no longer doing business in their prior form represented one-third of the significant CMBS origination volume. The departure of those lenders and the real estate portfolios they left behind could worsen the market stress of hundreds of billions in loans maturing over the next three years, Korologos added.

But there's a bright side. Pivoting to the topic of "optimism and possibilities," Korologos asserted that some lenders are starting to make loans again.

"That's a good thing because the liquidity that disappeared from the market is going to be the only thing that will facilitate transactions," he said.

Part of that resumed liquidity will be a modest resurgence of CMBS, with various analysts predicting anywhere from $8 billion to a high of $30 billion in new issuance in 2010, he said.

Life companies are cautious but becoming active in the marketplace, expecting to lend between $30 billion and $40 billion this year. GSE agencies Freddie Mae and Fannie Mac will remain very active in providing liquidity for the multifamily market, an estimated $35 billion, and commercial banks are starting to step back into the market as well, he said. *(See related in-depth CoStar Group coverage **on how bank loan-loss reserves could impact CRE borrowing.)***

Also preparing U.S. lending platforms are sovereign wealth funds -- notably, Abu Dhabi Investment Authority (ADIA) of the United Arab Emirates -- along with investment banks, specialty finance companies and others. Some hope to tap into the awakening securitization market, said Korologos, citing three significant conduit deals that have occurred since November.

The new players stepping into the market looking to actively participate and lend produced a significant volume increase in 2009, albeit over a very base in 2008.

"The new securitization deals are telling us lenders are OK with buying CMBS deals again. There's liquidity in the marketplace, Korologos said. "These are all good things and it's a story we were not able to tell five or six months ago."

TALF Window Closing, 'Vast Sums' Await Investment

Steve Miller, director of debt research and risk management for Property and Portfolio Research, Inc. (PPR), a CoStar Group subsidiary, acknowledged there are groups trying to establish lending programs -- hopeful the securitized markets can thaw out and become a viable platform again. Many of those could come out of the woodwork before the government's program to jumpstart securitized debt, the Term Asset-Backed Securities Loan Facility (TALF) expires in two phases by the end of June.

"The proof will be in the pudding and we'll find out pretty quickly" how many deals actually get done, Miller said. "The TALF window will be closing pretty soon, this month for legacy loans and in June for new issues. So if I'm a new lending and trying to generate lending now, I'm certainly going to try and get financed by June 30."

On the investment side, some funds appear to be starting to deploy the massive amounts of capital they've amassed for distressed real estate, while others are still waiting to see if property values will fall even lower in coming months, the Deloitte executives said. Globally, real estate funds had raised $189 billion in dry powder -- capital raised but not yet spent -- through the end of the third quarter, with $115 billion designated for U.S. real estate, said Guy Langford, partner, Deloitte & Touche LLP.

"There's money in the wallet, so to speak," Langford said. "You can see some big war chests being amassed behind impressive institutions right now, and many of them are being raised specifically for distressed opportunities -- purchasing a distressed loan or portfolio from a bank, purchasing distressed assets out of bankruptcy, or providing equity to recapitalize pools of assets."

About $60 billion of the $115 billion for U.S. real estate was earmarked for various distressed debt and opportunity funds. Publicly traded REITs raised more than $30 billion and non-traded REITs raised $70 billion in 2009 to deleverage or take advantage of acquisition opportunities.

Sovereign wealth funds and public and pension funds have raised vast sums. SWFs alone controlled more than $2.5

trillion globally, about 5% to 10% allocated to real estate. Abu Dhabi has committed $75 billion, while the Government of Singapore Investment Corp (GIS) raised $30 billion as of October.

Large public pensions such as California Public Employees Retirement Systems (CalPERS) raised $19 billion, and other large funds raised by public pensions included the Ontario Teachers Pension Plan, the California Teachers Retirement System, Temasek Holdings and Alaska Permanent Fund Corp. Private pensions such as TIAA-CREF, Dutch Pension Fund for Building Industry, AMF Pension, Shell Asset Management Co., Citigroup Pension and Alcatel - Lucent Pension Fund have raised billions more.

What about actual transaction activity? Langford said there's a positive upward trend on the number of deals.

"It's a wobbly line, admittedly, but it does tell a good story. In December 2009, we actually recorded the highest number of distressed CRE deals to date. In January, even though the number of deals fell, the value of those deals was higher."

The watch word continues to be patience, PPR's Miller said.

"A lot of people with money on the sidelines ask us when they're going to be able to put it to work," said Miller. "The wild card is what the government does. The banks can only manage their way through [loan losses] at a certain speed. The government is in control of a good portion of it."

One evolving type of transaction involving the government is FDIC-assisted structured loan sales -- deals between the regulator and private equity and real estate firms in which the FDIC forms an LLC and retains a participation interest in the property's future cash flow. Since May 2008, the FDIC has sold distressed CRE through 10 such transactions, with the government's equity interest ranging from 50% to as high as 92.5%.

Recent deals include Lennar's $243 million purchase last month of a 40% stake in residential and commercial properties in Nevada, Georgia and Arizona; Colony Capital Acquistions' purchase in January of a 40% interest in 1,200 distressed properties in Georgia, California, Florida and Nevada at a 78% discount price of $90 million; and Starwood Capital's acquisition of 40% of Corus Bank's portfolio of 12,000 condos in Miami, Las Vegas, Atlanta and Los Angeles for $554 million -- a 55% discount.

In these transactions, the FDIC retained a majority stake, but the gap was filled by private equity real estate capital, Langford said.

"There's a lot of capital starting to see some deals and hopefully, it will manifest into more activity and resolution on the bank side in 2010," he said.

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Thinning Loan Loss Coffers May Restrict CRE Lending

銀行用於補救問題貸款的儲存越來越多，所以可用於放貸的款項越來越少

Efforts to Squirrel Away More Cash Keeping the Lid on Commercial Real Estate Lending

By Mark Heschmeyer (CoStar)

In addition to keeping an eye on declining property values, falling rents and rising vacancy rate numbers, the commercial real estate community is also concerned over ominous signs in banking industry numbers.

One big area of concern is the fact that banks are stowing away more money to cover problem loans. The amount being set aside is rising rapidly and is now higher than it has been for a quarter of century. Meanwhile, the amount of problem loans is rising at even more than twice that rate.

The implications of the increased loan loss coverage for the commercial real estate industry is that it will likely further limit the amount of money available for borrowings. Those numbers also signify that this will continue to encourage "extend and pretend" policy that some lenders have pursued, and it may further encourage lenders to be optimistic about their recovery rates to avoid taking further losses/writedowns. And at the same time, lenders won't hesitate in demanding more money out of borrowers' pockets.

Mark Fitzgerald, senior debt analyst at Property and Portfolio Research (PPR), a CoStar Group subsidiary, keeps track of the rising levels of loan loss reserves and problem assets and the ratio between the two. Similar to what happened in the early 1990s, bad loans are piling up so fast, banks can't increase reserves fast enough without showing huge negative earnings, he said.

"It looks like the loan loss allowance to noncurrent loan ratio began declining in second half of 2006," Fitzgerald noted. "Noncurrent loans and leases began increasing in second half of 2006, whereas loan loss allowances began increasing in second half of 2007. The average from 1992-2009 is 1.33, compared to 0.58 today."

Put in dollars, that means that for the past 15 years or more, banks kept aside an average $1.33 for every dollar in bad debt they were carrying on their books. Today, banks have only 58 cents set aside.

"The biggest takeaway from those numbers is that banks will continue to need to carefully manage their way out of this --- timing of earnings, reserves, and write-offs are all critical to keeping capital ratios intact," Fitzgerald said. "As delinquencies continue to rise, reserves will need to be kept at high levels, and new lending could be restricted for some time."

Patrick Fitzgerald (no relation to Mark), CCIM, vice president, REO Property at KeyBank Asset Recovery Group, has been on one of the major front-lines fighting the effects of the recession: Florida.

"There is pro-cyclicality in the reserves such that in good economic times the reserves get built up a bit as they are sparsely used and in bad they are tapped to cover losses. It's not surprising to see the coverage ratio decline," Patrick Fitzgerald said.

"During 2009, most line employees in banks spent the majority of time going through loan portfolios and figuring out exactly what they had, how much underlying collateral values had changed, and aggressively marking-down distressed and non-performing loans to reflect new recovery assumptions," Patrick Fitzgerald said. "Thus, a lot of reserves were used in 2009 as loans were charged-off (partially or in full) to essentially mark-to-market the loan book."

In addition, KeyBank's Fitzgerald noted that federal banking regulators -- in Washington, at least - have shown banks a willingness to allocate less reserves as a percentage of non-performing loans.

This should be a bullish signal to the market, Patrick Fitzgerald said. "At a minimum it says that the belief is that things are getting less bad. We've gotten our arms around our loan book and although non-performing loans may still grow a bit, we believe the biggest write-downs are in the rearview mirror. And if this isn't the case, God help us all."

Indeed, year-end balance sheet numbers for banks do show some hope. The amount of some noncurrent loans decreased in the past quarter for the first time in years. For example, the total amount of noncurrent construction and development loans fell for the first time in four years. In addition, the average net charge-off ratio also improved after peaking in third quarter, and early stage delinquency trends showed promise.

Despite these signs of stability, the bad news is that the increase in overall noncurrent loans last quarter was driven largely by real estate. The amount of real estate loans secured by nonfarm nonresidential real estate properties that were noncurrent rose by $4.5 billion (12.2%). And such exposure will likely necessitate considerable more reserves this year. So while some forms of lending seem to be coming out of the woods, banks will still be trying to clear a path through the commercial real estate thicket.

"Loan delinquencies and defaults continue to rise as expected, but they still fail to capture the enormity of distress in the commercial real estate market, as most properties are still producing enough cash flow to adequately meet debt payments," writes Josh Scoville, Director, US Equity Research at PPR in PPR's Daily Update for March 10. "However, given the massive correction in property values, it is increasingly likely that assets with debt are upside down - i.e., the property value has fallen below the principal left on the loan. This may be all fine and dandy in our extend-and-pretend world as long as two things occur: 1) the cash flow remains high enough to continue to meet debt service, and 2) there are no major capital events required to maintain the asset. With market cash flows falling, the first requirement is under growing pressure, and this distress is directly reflected in the rising delinquency and default rates. However, the latter requirement may be an even bigger issue, as debt maturities continue to force capital events."

"The banks are trying desperately to survive the current crises without facing up to massive losses," said Robert D. Domini, MBA, MAI, president of Continental Valuations Inc. Perrysburg, OH. "With delinquencies mounting, loan loss reserves are definitely falling behind. How long [banks] can hold off will depend on how bad the commercial real estate crisis gets. Vacant, deteriorating buildings in default can't be papered over for long."

Cash Is King

Jeffrey Rogers, president and COO of Integra Realty Resources, the largest independent commercial real estate valuation and consulting firm in North America, said the banking numbers show that they may be out of the "crisis phase" but still have a lot of clearing out to do.

"We still have a long way to go before we have a normal banking system again," Rogers said. "We are still in a period of deteriorating assets and loan losses to work through. This will take some time. 140 banks were shut down by the FDIC last year. This year, we will have more than twice that. The weak banks must be cleared out of the system and it is a process. Notwithstanding, we are through the crisis phase of the cycle and the top thirty banks are healthier than they were a year ago today."

"No institution wants to sell an asset at the bottom of the market unless it has to. As long as the asset does not deteriorate significantly during the hold period and the asset will likely increase in value in a normal market, there is a bias to hold," Rogers said. "Moreover, when banks were at their weakest point, taking big losses on assets

would have been even more perilous. Banks need time to earn their way out of this recession. They will be able to absorb losses better after recapitalization and positive operating metrics."

"In a recession and in the midst of a banking crisis, lending standards tighten significantly," Rogers said. "Nothing becomes more important than cash. There is still a lot of uncertainty in the capital markets and no one has the appetite for risk. Those with the cash will come out on top."

And when it comes to getting cash, there still remains a great deal of uncertainty, Rogers said.

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Latest Residential Loan Rates [Similar to Last Week]
最新住宅地產貸款利率【與上周持平】

	Interest Rate	APR
Conforming and FHA Loans		
• 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%
Larger Loan Amounts in Eligible Areas – Conforming and FHA		
• 30-Year Fixed	5.125%	5.264%
• 30-Year Fixed FHA	5.125%	5.794%
• 5-Year ARM	4.125%	3.606%
Jumbo Loans – Amounts that exceed conforming loan limits		
• 30-Year Fixed	5.500%	5.643%
• 5-Year ARM	5.000%	3.930%