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COMMERCIAL REAL ESTATE MARKET UPDATES

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STC Vendor Appreciation Party

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STC Vendor Appreciation Party
STC 資產管理的 Vendor 聚會成功落幕

STC 資產管理公司希望藉這次會談更深入了解各行各業的專家達人，更希望藉此傳達 STC 的專業管理信念。STC 資產管理在未來將稟承讓我們成為南加華人第一家國際認證資產管理機構的一貫方針。

STC 資產管理將與更專業 Vendor 有機會成為達成合作關係。一起我們將建立一個更加精簡和高效的 Vendor 聯絡網。我們相信高質量的維修和降低運營成本將使 owner 和 Tenant 受益無限。

STC 資產管理和我們的 Vendor 希望繼續發展彼此間的長期合作夥伴關係，進促成雙贏局面。

STC Management's first Vendor Appreciation Party turned out to be a great success, as vendors of all specialties showed up to meet the STC team and learn about how the company is reforming its operations in adherence to Accredited Management Organization (AMO) guidelines.

STC Management's new vendor policies will provide companies with the opportunity to become STC Management Qualified Vendors, helping STC Management to build a more streamlined and efficient network of vendors. This will help improve value for owners as well as tenants as the properties collectively benefit from higher quality maintenance and lower operating costs. Together, STC Management and its trusted vendors hope to continue to develop their mutual long-term partnerships and provide value for all parties.

Contamination Examination
Tainted properties may be worth the risk for savvy investors
對於有經驗的投資者來說，有環境污染的地產可能物超所值

By Tom Muller (CIRE Magazine, Mar/Apr 2010)

Tainted properties may be worth the risk for savvy investors.

Real estate recessions create terrific investment opportunities the trick is figuring out which ones are right for you. With banks and loan servicers increasingly swamped by foreclosure properties, environmentally contaminated properties can offer particularly good deals. A fair amount of fear and uncertainty continues to shadow contaminated properties, especially for companies not experienced in dealing with environmental issues. And lenders and servicers have enough problems today. The complexity that comes with environmental contamination may cause them to unload such properties as quickly as possible and far below market value.

Investment in this arena is not for the unsophisticated or the faint of heart. But for investors with experience and good legal and technical advisers, there will be some remarkably good opportunities. But first investors must understand the two broad categories of risks associated with tainted properties: the potential liabilities connected to the contamination and limitations on the use of the properties after the cleanup.

Cleanup Costs
The Comprehensive Environmental Response, Compensation, and Liability Act, also known as CERCLA or Superfund, is a federal statute intended to make sure that environmental contamination gets cleaned up with as little cost to U.S. taxpayers as possible. The statute applies a strict liability rule, making current owners and users of the site liable for cleanup costs even though they had nothing to do with contamination that may have occurred decades ago. The owners and users who actually caused the problem also are liable, and the government will go after them first if possible. But of en they are insolvent or long gone. CERCLA is only one of many state and federal laws imposing obligations on owners of contaminated properties. Other federal laws may impose environmental liability, and many states also have complex laws governing transfers of contaminated properties and imposing environmental cleanup liability, not to mention the potential for common law liability claims, such as for nuisance and trespass, of en employed by nearby affected property owners or water users.

Exemptions
Typically, CERCLA's brute force is blunted by some exemptions. The innocent purchaser defense is available to contaminated property buyers who do not know at purchase that their properties are contaminated. However, potential buyers must do "all appropriate inquiry" into previous uses and current environmental status — in essence, the ASTM E1527-05 Phase I Environmental Assessment that has become standard practice in real estate acquisition and financing. This defense is not available to buyers who discover that their properties are contaminated. Other defenses, such as so-called third-party defense, are available where the buyer had no involvement in the contamination and no contractual relationship with anyone who did. This unsatisfying defense has rarely protected anyone from liability. Similarly, CERCLA provides an exemption for secured creditors, as long as they do not exercise any control over actions taken with respect to the contamination. The exemption is supposed to cover lenders even after they take title through foreclosure, as long as the lender offloads the property as soon as reasonably possible. As a practical matter, though, this may not help. The lender can't effectively sell the property until it has dealt with the environmental issue. This will cause it to step up and manage a cleanup, the cost of which of en can defeat the purpose of foreclosure.

For these reasons lenders almost always require an environmental indemnity from the borrower or from a deep-pocketed owner of the borrower. These indemnities typically permit assignment of the indemnity to a buyer of the loan or the property in or after foreclosure. The problem, of course, is that if the property is distressed, it is very likely that the borrower and indemnitor also are distressed and may not be able to pay on the indemnity. So it's easy to understand why lenders are not anxious to become owners of such properties and why sophisticated buyers may be able to pick up good deals. There have been more than a few cases in which lenders faced with these properties have simply walked away from their loans, refusing to foreclose.

In many of these situations, the lender is sufficiently leery of stepping into title that it will prefer to sell the note and mortgage before foreclosure. Any contaminated-property buyer normally will ask for a discount for the estimated cost to clean up the contamination, plus a percentage to account for the possibility that the estimate is low since these costs are somewhat difficult to determine in advance. In addition, a buyer of the mortgage note will apply another discount to account for the risk that the borrower may file for bankruptcy protection, delaying or possibly thwarting acquisition of the property. Therefore, well-advised investors who can calculate appropriate discounts for both cleanup and foreclosure risks may well find very significant bargains from well-motivated lenders and servicers.

Use Restrictions

The science, practice, and regulation of environmental remediation have progressed greatly over the past 25 years, so the characterization of most contamination and methods for dealing with it have become largely routine and relatively predictable. Thus investors should be able to quantify their risks with contaminated properties and may even be able to insure against some of those risks.

However, it's not just a question of the appropriate discount from the purchase price. Government-mandated cleanup plans may require that underground remediation equipment remain in place for years, taking vapors or liquids out of the soils and groundwater, which can delay development or render site sections undevelopable for a time.

Cautious regulators may require that the property be permanently deed-restricted to prohibit certain uses, such as residential. Finally, environmental contamination often complicates the land-use entitlement process. Neighbors may fear that development will stir up and expose them to harmful substances and may oppose property re-use plans. Planning commissions and city councils may require health risk assessments and identify expensive mitigation measures as a condition to development.

Despite these potentially formidable obstacles, with the help of experienced legal and technical advisers to properly assess and manage the risks associated with environmentally tainted properties and plan accordingly, investors may be able to find some of the best property investment opportunities this market has to offer.

Greening to Compete
Owners roll out sustainability programs to maintain their tenant base
房東綠化他們的產業來吸引以及留住房客

By Beth Young, CCIM, LEED-AP (CIRE Magazine, Mar/Apr 2010)

Are sustainability and energy efficiency upgrades playing a role in today's down commercial real estate market? Definitely, say those in the field. "I recently lost a 20,000-square-foot office tenant to a Silver LEED [Leadership in Energy and Environmental Design] certified building that was $2.12 more per square foot than our building," says Doug Webster, an office leasing specialist with Grubb & Ellis/ The Furman Co. in Greenville, S.C.

"The tenant's broker said they preferred our location, layout, and lower rate, but the fact that the [building] owners were not willing to institute a formal sustainability program caused this national engineering firm to select the LEED location. Subsequently, we are now working with the owners to put a rolling sustainability program in place as tenants vacate or update their space." Researchers working with CoStar Group have studied the green trend and the findings support this example. Since 2005, the nationwide difference in occupancy rates between Energy Star buildings and their peers has grown from almost zero to approximately 2.5 percent in 2009. The occupancy rate difference is 5.4 percent when LEED-certified buildings are compared to non-certified buildings. National rental rate differences for Energy Star buildings vs. their peers have increased from $2.32 psf in 2005 to $4.73 psf in 2009. If only LEED-certified buildings are compared to non-certified buildings, the rental rate gulf is $9.06 psf. These are serious incentives for landlords to upgrade their office buildings. David Brewer, president of Brewer & Escalante, an engineering firm in Houston, has offices in a non-green building currently; however, he will only consider LEED-certified buildings for his next lease. Fortunately he will have a number of choices: At year-end 2009, Houston had 60 LEED-certified buildings and 600 additional buildings that are LEED registered. Landlords are quickly realizing that besides being environmentally minded, they must make energy saving improvements simply to compete for tenants — especially in a down market.

Sealing the Envelope
What retrofitting measures offer the most return on the investment when either selling the building or attracting tenants and achieving higher rental and occupancy rates? Energy savings is the obvious place to start. The larger wastes are in lighting, heating, ventilation, and air conditioning systems, and the thermal envelope of the building. More than 70 percent of existing buildings have not upgraded lighting, HVAC, insulation, or windows, according to engineering research reports. Yet a 2006 U.S. Green Building Council survey found that building owners save 90 cents psf annually by retrofitting their properties, and earn back their investment in two to 2.5 years.

Check the Database of State Incentives for Renewables and Efficiency (www.dsireusa.org) to find out what tax credits, grants, financial incentives, and other energy efficiency funding your state offers.

Before making any changes, find out where and how much energy is currently being used. Many utility companies will do a free or inexpensive energy audit to discover a building's unique energy deficiencies and potential for improvement, says Timothy Buckley, LEEDAP, an architect with Greenstone Architecture in Vancouver, Wash. "Based on the energy audit findings, you can then assess upgrade needs, estimate first costs and returns on the investments, and begin establishing priorities for upgrades," Buckley says. Building envelopes can provide quick savings when renovated. Upgrading insulation can be a low-cost improvement with a fast return. Weather stripping and weather sealing, for example, quickly improves the building's defenses. A more costly change that has a big impact on savings is the replacement of old windows and doors with new high-performance versions. In 2009, the General Services Administration Workplace Performance

Study concluded that if only 40 percent of GSA-owned buildings were retrofitted with properly sealed high-performance R4 windows with high visible transmission (60 percent or greater) to maximize daylight, the estimated annual energy savings would be $12.8 million.

Upgrading windows also will contribute to human comfort and performance by reducing drafts and noise and improving end-user access to daylight and views. The greater efficiency will pay for the cost difference in three to five years, the study reported.

The Future: Achieving Net-Zero Energy

Net-zero energy buildings are super energy-efficient, grid-connected buildings that use on-site generation systems, such as solar power and geothermal energy, to produce as much energy as they consume. The U.S. Department of Energy, through its Net-Zero Energy Commercial Building Initiative, aims to achieve marketable commercial net-zero energy buildings by 2025 and is working closely with industry leaders through the Commercial Building Energy Alliances to make it happen. Commercial Building Energy Alliances are informal associations of building owners and operators who evaluate, test, and ultimately implement replicable approaches to creating a variety of energy-efficient buildings in several different climate zones. To date, DOE has created three alliances to represent specific sectors: the Retailer Energy Alliance, the Commercial Real Estate Energy Alliance, and the Hospital Energy Alliance. Alliance members work with DOE and national laboratories to compare and contrast emerging technologies in real-life scenarios. Eventually, other commercial building owners and operators will use alliance members' experience and research to purchase energy-efficient technologies with a better idea of their potential return on investment. Through a tandem program, the Commercial Building Partnerships, more than 20 companies and organizations will conduct research and development to construct new buildings that use 50 percent less energy and retrofit buildings that use 30 percent less energy. The teams will then share results with alliance members. As of October 2009, 44 companies, representing 23 percent of the market share, belonged to the Commercial Real Estate Energy Alliance, and the Retailer Energy Alliance's membership includes 39 companies representing more than 17 percent of the market share. Alliance members include Re/Max Real Estate, Transwestern, USAA Real Estate Co., and Wal-Mart.

—by Dru Crawley, who leads the U.S. Department of Energy's Net-Zero Energy Commercial Building Initiative.

Lighting the Way

Lighting system upgrades range from simple changes to a complete replacement. Easy changes include reducing excessive or unneeded lighting. For example, on a small scale, one lamp can be removed from existing three-tube fluorescent systems, and for larger areas, occupancy sensors and time clocks can automatically reduce hours of lighting. A Portland, Ore., building owner replaced the 24-hour, seven-days-a week fluorescent lighting in a four-acre parking garage with motion-activated lights that dim by 90 percent when no one is around. The same approach can be used in interior restrooms, storage areas, hallways, and other infrequently used common areas.

"If considering a wholesale lighting replacement, look at reducing lighting power budgets and using high-efficiency low-mercury fluorescent systems, or even LED," Buckley says. "The initial cost of LED technology is still pretty steep; however, the energy savings over time are significant — up to 70 percent, according to some universities that have made the switch. And it may make it worthwhile when considering LED's incredibly long life. The reduced maintenance and costs savings associated with not having to re-lamp other systems can be a huge factor."

Deregulated purchasing of electricity at lower rates is another area for great cost savings. Grubb & Ellis manages facilities-related purchasing for United Stationers at 80 locations across the U.S. It purchased electricity at lower rates in deregulated states for a savings of $865,000.

The owner of New York's Sony Building also chose Grubb & Ellis to manage the building, including reducing energy and operating expenses. Solutions included making recommendations for electricity purchasing and including the Sony Building in a pooled bid. G&E also reduced peak rate charges by reviewing electrical charges and time-of-day usage records to determine spike usage. After isolating the cause and changing procedures, G&E reduced the building's electrical costs by $1 million per year. A lighting retrofit resulted in additional energy savings and a local tax rebate of $400,000.

In another example, a national financial-services company implemented numerous initiatives in the operation of the building's HVAC equipment, reduced interior lighting, added more lighting controls, and installed carbon dioxide and motion sensors to increase efficiency and reduce waste. Their sustainability efforts yielded an annual estimated energy savings of 11 percent.

In Portland, the 17-story Liberty Centre office building received a BOMA award in 2007 for its superior energy efficiency. As much as 30 percent of the building's energy is renewable and it has seen energy savings of more than $40,000 a year.
On a smaller scale, a creative way to reduce operating expenses is to go from a gross or full-service lease including electricity to a net lease with separate metering of electricity for each tenant. Studies show that tenants receiving individual utility bills consume an average of 21 percent less electricity.

Turning Off the Water
Water reduction is another area of significant savings. One of the most beneficial changes can be in the retrofit of a building's interior water fixtures. For example, efficient water faucets and toilets provided a 67 percent return on investment in as little as 1.5 years for 200 Market Street in Portland, Ore. "The 19-story building achieved a 31 percent water-use reduction beyond the Uniform Plumbing Code by retrofitting their plumbing fixtures," says Elaine Aye of Green Building Services, who managed the building's LEED certification process.

Once changes have been made, it's important to make sure they continue working as designed. "A continuous monitoring system can be installed to diligently monitor [the building's] energy use and also allow for system adjustments," says Eric Haskins, a G&E vice president in Portland. "The engineers are notified by automated text message whenever building systems stray from their set parameters. This process ensures that the building's operational systems can be preemptively maintained." Tenants and investors clearly are recognizing the value associated with sustainable upgrades, whether it affects the bottom line or improves their image with clients. With savings and returns like the examples given here, a more appropriate question might be, how can a landlord afford not to make green upgrades?

Comparing the Fed's 2010 Statements
美国联邦储备 2010 年發表言論對照

(Reprinted with permission from the California Real Estate Journal)

LABOR MARKETS
January: "The deterioration in the labor market is abating."
March: "The labor market is stabilizing."

ECONOMIC CONDITIONS
January: "Household spending is expanding at a moderate rate but remains constrained by a weak labor market, modest income growth, lower housing wealth and tight credit."
March: "Household spending is expanding at a moderate rate but remains constrained by high unemployment, modest income growth, lower housing wealth and tight credit."

BUSINESS ACTIVITY
January: "Business spending on equipment and software appears to be picking up."
March: "Business spending on equipment and software has risen significantly."

INFLATION
January: "Inflation is likely to be subdued for some time."
March: "Inflation is likely to be subdued for some time."

INTEREST RATES
January: Leaves federal funds rate at record low of zero to 0.25 percent, where it has been since December 2008, and repeats pledge to keep rates "exceptionally low" for "an extended period."
March: Leaves rates unchanged and repeats pledge to keep rates "exceptionally low" for "an extended period."

SPECIAL SUPPORT
January: The Fed said it would close on Feb. 1 various special programs to support the financial market "in light of improved functioning of financial markets."
March: The Fed says that the only remaining special credit program, the Term Asset-Backed Securities Loan Facility, was still scheduled to close by March 31 for loans backed by various types of collateral and would close on June 30 for loans backed by new-issue commercial mortgage-backed securities.

2010 Bank Closures: 37 Banks as of March 19, 2010
2010 年截至 3 月 19 日，FDIC 已關閉 37 間銀行

Bank Name	City	State	Closing Date
State Bank of Aurora	Aurora	MN	19-Mar-10
First Lowndes Bank	Fort Deposit	AL	19-Mar-10
Bank of Hiawassee	Hiawassee	GA	19-Mar-10
Appalachian Community Bank	Ellijay	GA	19-Mar-10
Advanta Bank Corp.	Draper	UT	19-Mar-10
Century Security Bank	Duluth	GA	19-Mar-10
American National Bank	Parma	OH	19-Mar-10
Statewide Bank	Covington	LA	12-Mar-10
Old Southern Bank	Orlando	FL	12-Mar-10
The Park Avenue Bank	New York	NY	12-Mar-10
LibertyPointe Bank	New York	NY	11-Mar-10
Centennial Bank	Ogden	UT	5-Mar-10
Waterfield Bank	Germantown	MD	5-Mar-10
Bank of Illinois	Normal	IL	5-Mar-10
Sun American Bank	Boca Raton	FL	5-Mar-10
Rainier Pacific Bank	Tacoma	WA	26-Feb-10
Carson River Community Bank	Carson City	NV	26-Feb-10
La Jolla Bank, FSB	La Jolla	CA	19-Feb-10
George Washington Savings Bank	Orland Park	IL	19-Feb-10
The La Coste National Bank	La Coste	TX	19-Feb-10
Marco Community Bank	Marco Island	FL	19-Feb-10
1st American State Bank of Minnesota	Hancock	MN	5-Feb-10
American Marine Bank	Bainbridge Island	WA	29-Jan-10
First Regional Bank	Los Angeles	CA	29-Jan-10
Community Bank and Trust	Cornelia	GA	29-Jan-10
Marshall Bank, N.A.	Hallock	MN	29-Jan-10
Florida Community Bank	Immokalee	FL	29-Jan-10
First National Bank of Georgia	Carrollton	GA	29-Jan-10
Columbia River Bank	The Dalles	OR	22-Jan-10
Evergreen Bank	Seattle	WA	22-Jan-10
Charter Bank	Santa Fe	NM	22-Jan-10
Bank of Leeton	Leeton	MO	22-Jan-10
Premier American Bank	Miami	FL	22-Jan-10
Barnes Banking Company	Kaysville	UT	15-Jan-10
St. Stephen State Bank	St. Stephen	MN	15-Jan-10
Town Community Bank & Trust	Antioch	IL	15-Jan-10

Retail Details

Renegotiating leases requires attention to each tenant's circumstances

重新商討租賃合約時需要仔細審視每個房客，條款需因人而異才能留住房客

By Bridget Grams and Ben LaForest (CIRE Magazine, Mar/Apr 2010)

Due to the economic downturn, property owners and real estate companies that work with retailers and restaurants have seen a record number of requests for restructured leases or renegotiated rental agreements. According to real estate industry experts, the trend is likely to continue until 2012.

Until there is a full economic recovery, lease and rent negotiations will remain a necessary strategy for maintaining the viability of shopping centers and malls. In some instances, it even can provide a win-win situation for riding out the financial crisis. But with requests coming from every direction, it's not always easy for landlords to identify the ideal situations for restructuring or renegotiating retail tenant lease terms. In addition, not all tenants are alike; in fact, most bring unique circumstances to the table that landlords must consider individually. Looking at tenants in terms of their financial health, leverage, and what they bring to the shopping center mix may help landlords and property owners determine the best course of action in retail lease restructuring.

The Big-Box Retailers

Nationally recognized big-box retailers often make for the most compelling case for lease restructuring. With deep pockets that run advertising campaigns, promotions, and sale events, these anchor retailers are the main attraction for most shopping centers. The case for lease restructuring lies in their large rents and even larger square footage. Properties such as power and strip centers thrive on low anchor vacancy rates and of en offer reduced rent or co-tenancy clauses to smaller tenants if an anchor leaves the center. In the typical co-tenancy clause, once the center surpasses a certain level of vacancy or loses a tenant in an anchor space, of en rent is reduced to a percentage of revenue or is abated altogether.

Big-box leverage starts with the waterfall effect. In a scenario where, due to excessive rental rates and slim retail margins, an anchor has no choice but to close its doors, the property owner could see contractual minimum rent replaced with monthly percentage of sales or, even worse, a complete abatement of minimum rent until the anchor is replaced.

Let's look at an example center with 15 tenants and 130,000 square feet of rental space tied to a co-tenancy clause. At $18 per square foot, the landlord is collecting $2.34 million in annual rent. Suppose a 20,000-sf anchor vacates and causes the 14 remaining tenants with co-tenancy clauses to reduce rent to 6 percent of gross sales. If those tenants have an average sales level of $225 psf, the new minimum annual rent is $1.49 million. Compare the cost of allowing the anchor to stay on at a significantly reduced rent with this crippling 37 percent reduction in annual rental income and the leverage of the big-box retailer is clear.

However, the threat of vacancy may not be the most appropriate path to a successful restructure. In many cases, an anchor tenant may be in the middle of a lengthy lease term and may have fallen victim to current economic pressures. A rental increase may be acting as a ticking clock, counting down the next slice to the bottom line.

The solution can and should be a creative give-and-take with the property owner. The first option simply may be to hold off on increasing the rent for a few years. As an alternative, coupling a rent reduction with the introduction of percentage rent allows the tenant to receive immediate bottom line relief, while the landlord shares in any upside revenue growth.

The end result is to put both parties at ease. Working together and understanding each other's situation is essential in a successful lease restructure. The anchor tenant may hold the leverage in the shopping center, but unit reduction is never the business plan of any nationally recognized retailer.

Regional Tenants

Smaller regional tenants certainly are not lacking importance in the retail world. The 5,000-sf to 10,000-sf restaurant operators and 2,500-sf boutiques and apparel shops are the capillaries that keep the action fl owing through many shopping centers and malls. However, the difference with these tenants is of en in the margin. While strong national retailers may be able to subsidize poor performance in a few unsuccessful outlets, regional operators will cut ties to stop profit leaks from sinking the ship.

When a center shows the onset of midsize to small tenant vacancy, opportunity arises in the form of simple economics. As the demand for space in the center falls, so should the price to remain in the center until vacancy returns to historical levels. This has become a reality for property owners as average rental rates for the three-year period through 2010 are forecast to decline by 13 percent, according to the National Association of Realtors. Recent lease restructures have provided reductions in the 15 percent to 20 percent range, adding 8 percent to 17 percent of relief beyond projected market conditions. As we arrive at the natural balance of demand and price we will begin to experience a turnaround in vacancy rates. However, they may reach 12.9 percent by the end of second-quarter 2010, NAR forecasts.

Going back to the troubled center example, suppose that, over the course of the year, six of the smaller tenants approach the property owner for a base rent reduction of 20 percent. With a total center share of 35,000sf and $18 psf, the shopping center owner will lose $126,000 in annual rental income. Taken on a unit-by-unit basis, this ranges from $10,000 to $35,000 per tenant. Most shopping center owners would agree that spending $126,000 to keep the center full is well worth the alternative rent loss and marketing and legal costs they will face if the tenants are forced to terminate leases early. In exchange for the stability in vacancy that the owners receive, most small retailers and restaurant operators in today's environment would bend over backward for an additional $10,000 to $35,000 added to their bottom lines.

Offsetting Income Loss

In a time when demand has fallen and costs have increased, shopping center owners must keep their eyes on the prize. Just as tenants are discounting and accepting less profit to keep the doors open, property owners must follow suit. Consumers will come back, but the semblance of the shopping center should be kept intact. This is the responsibility of the tenants and the owner.

The reality of lease renegotiations need not be a negative experience. Although we've focused on rent reduction and loss of income to the property owner, other actions can offset the transaction and encourage a fruitful outcome for both sides. When the anchor tenant is given a reduction in base term or base rent, this is a good opportunity for the landlord to request an increase in marketing, which in turn may boost the center's consumer traffic. When midsize and small tenants are provided concessions, it is of en an acceptable counter to ask for aesthetic improvements to their space. If tenants are looking for restructures and not outright terminations, they want to stay in the space. Asking for a dual effort to improve the center and keep it full of happy tenants is only going to make life easier for retailers and property owners.

Following the Paper Trail

Given that lease restructuring is a necessary part of doing business today, property owners need tools to determine if tenants simply are looking for a quick handout or clearly need lease restructuring.
Regardless of retailers' size, request that tenants make the case for lease restructuring or rent reduction.

Verifying the financial standing of the operating entity is the first step. If the tenant is publicly held, take a look at Security and Exchange Commission filings such as 10-K annual or 10-Q quarterly reports. These documents will help owners understand tenants' financial well-being and the state of their specific businesses. When examining the financials, owners should look for potential bankruptcies and corporate restructures. The presence of a looming liquidation will leave a landlord with very little, whereas a restructuring could force him to agree to extreme concessions or face a lease rejection in bankruptcy court. In either instance, a little due diligence is a necessary preparation.

Second, ask tenants to provide a performance history of the specific location. Obvious signs of trouble include negative cash flow, significant year-over-year losses in earnings before interest, taxes, depreciation, and amortization, and/or large declines in sales revenue. Less obvious signs are cost ratios, such as total occupancy and rent expenses as a percent of sales. For example, in the restaurant industry's quick service segment, occupancy costs in excess of 8 percent of sales are considered dangerous to a tenant's financial health.

Finally, once you have the financials and are satisfied with the validity of the tenant's request, think about how the lease renegotiation is going to affect the tenant in the long term. Landlords should feel comfortable with the solution and avoid any situation where the tenant may come back for more in the near future. For instance, if a tenant will break even with the addition of a few dollars psf in rent reduction, work out a long-enough reduction term so that the issue will be sufficiently corrected once rent resets to previously contracted terms. As a second example, if the owner is considering accepting a percentage rent offer, make sure that the potential for meeting the breakpoint is reasonable in the future but that the potential doesn't put the tenant back in a bind at year-end when the first percentage rent payment is due.

Safeguarding the Future

In the end, the lease restructuring process is a simple one. The obvious facts dictate the right answer. If a tenant is distressed and there is a reasonable solution that keeps rent payments coming in and vacancy rates low, there is no reason to say no. If rental rates have been driven down in the market and a tenant is suffering the effects of signing a lease during the height of rental rates, consider a restructure. The worst case scenario for an owner is to lose a quality tenant at a time when preserving an asset's value is paramount.

Current trends, including increased lease restructuring, will undoubtedly affect the future real estate market. There are numerous examples of vacant shopping centers turning into churches, medical offices, or community colleges. This is partially due to the tight credit market — even debtor-in-possession financing is unavailable for companies seeking bankruptcy protection. Retailers are consolidating or liquidating; the result is fewer tenants and less demand for space. Lessened demand for space will lead to a continued decline in rental rates and the potential that owners will need to relax tenant standards. The increased risk of tenants without the backing of a multimillion dollar company will certainly lead to continued defaults on both the tenant side and the owner/lender side.

While this outlook may be grim relative to the industry, it does prove that lease restructuring is an absolute necessity if we are to continue to provide quality shopping centers to the consumer. Perhaps the best way to safeguard the future is for landlords to develop and maintain open relationships with their tenants. Regular contact generates a greater sense of partnership that will minimize future problems, no matter what the economic climate.

Multifamily Moves on Up
Buyers start looking for that deluxe investment
2010 年公寓買賣預計上漲 25-30%

By Matt Hudgins (CIRE Magazine, Mar/Apr 2010)

The national multifamily investment market may have turned a corner in 2009, at least in terms of investor demand. Dollar volume of the sector's closed transactions hit an all time low of $2.06 billion in the first quarter of 2009 but ticked up to approximately $3 billion or more in the remaining quarters of the year, according to Real Capital Analytics, a New York-based research firm.

Anecdotal evidence suggests that volume will climb in 2010 as a groundswell of bidding activity begins to result in completed transactions. Although distressed assets are catching headlines and offer lower prices, brokers say investors are competing for high-quality multifamily properties with low vacancy rates. That suggests that pricing is bottoming out, says Dan Fasulo, RCA's managing director.

"For the few good assets that are available, we're seeing 20 to 30 bidders," Fasulo says. "With that type of underlying demand, I can't see a scenario where prices fall from where they are now."
At Marcus & Millichap Real Estate Investment Services, multifamily deal volume is rebounding from a 38 percent drop in 2009, according to Linwood Thompson, M&M's managing director.

"We've done twice as much business in the last four months as we did in the previous nine months," says Thompson, who also directs the company's national multihousing group. "In 2010 velocity is probably going to increase 25 percent to 30 percent marketwide."

Bid Wars Redux
Throughout the U.S., investors are showing renewed interest in executing multifamily deals, as evidenced by the number of bids for stabilized assets. Late last year, M&M received 40 offers on a three-asset apartment portfolio in Florida. And in January, an apartment property in San Antonio that included an assumable loan garnered 50 offers, Thompson says. "The number of offers that we receive on deals is up dramatically."

In other markets CCIMs also report a surge in serious buyers. Phoenix's economy suffered as its housing industry imploded, yet buyers there are scrambling to buy cash-flowing apartments, says Brad Miner, CCIM, an associate in CB Richard Ellis' debt and equity finance group in Phoenix. Thirty-four apartment complexes with 100 or more units traded during 2009, double 2008's total, Miner says. Distressed deals accounted for about half of last year's volume.

On a recent multifamily listing, some 200 investors and brokers requested copies of the offering documents. "The buyer interest is mostly from private investors," he says. Thompson sees the run-up in buyer inquiries and bids as a sign that investors are growing optimistic. "That's a function of the belief that the market is at or near bottom, so they're thinking about how to get themselves positioned for the next up-cycle."

Hotbeds Warming Up
In a few rare markets — San Francisco, Washington, D.C., and Boston — competition to buy healthy multifamily assets is actually reversing the trend toward higher capitalization rates or initial annual returns on an acquisition, Thompson says. "If that continues, some sellers will feel like this is the time to move." Those markets are atypical, however. The bar for what constitutes a hot market is understandably lower today. Many investors now value stability and steady returns over appreciation potential and are ready to pay for that consistency.

Portland, Ore., is a magnet for conservative investors, according to Tom Davies, CCIM, vice president for apartment investment sales at Norris & Stevens. Although current prices suggest a 17 percent drop in Portland's apartment values since 2008, appreciation averaged 9.5 percent annually for the preceding decade, so "values have not dropped that much," he says.

At more than 93 percent, occupancy rates are near their typical equilibrium of 95 percent. In fact, the 8,000-unit apartment portfolio that Davies' company manages grew net operating income in 2009 from the previous year. "Portland has always been a little more stable than other markets on the West Coast," he says.

Apartment fundamentals in San Diego County, Calif., have proved more resilient than in past recessions, according to Robert Vallera, CCIM, principal of Commercial Realty Advisors in La Jolla, Calif. Asset values are down about 25 percent since 2005, but vacancy rates have moved up just 200 basis points to about 5 percent since 2007. Vallera attributes that relative stability to the near-universal impact of the job crisis.

"During the prolonged recession of the 1990s, many coastal California residents relocated to lower-cost cities in the Southwest, such as Las Vegas and Phoenix," Vallera explains. "This recession's deep national scope has prevented the unemployed from being able to easily flee inland in pursuit of better employment opportunities." San Diego's economy is more diversified today than it was in the 1990s, Vallera says, but unemployment still has doubled to more than 10.1 percent in the past three years. Vacancy and concessions have combined to reduce rental income by about 10 percent.

As in Portland, San Diego's physical and legal barriers have protected residential markets from oversupply everywhere except in the central business district. Inland California markets with low barriers to entry including the Inland Empire, and the Imperial and San Joaquin Valley areas — are languishing under high vacancy and home foreclosure rates brought on by overbuilding. "An ample supply of inexpensive foreclosed homes for sale now has tilted the rent vs. own equation to the detriment of apartment owners in these inland markets," Vallera says.

Hot Pockets

Local economic factors count for much more these days, leading to pockets of investment potential in many smaller markets. Jeff Siebold, CCIM, appraiser and owner of Siebold Group in Taswell Beach, N.C., has identified several hot spots for apartment development based upon growth planned by major employers. Apartment demand in Mobile, Ala., has heated up in the wake of a new steel plant announced last year. Military base realignment promises to boost housing needs in Fayetteville and Jacksonville, N.C., to serveFort Bragg and Camp Lejeune respectively. Planned automotive plants will create thousands of apartment renters in West Point, Ga., Chattanooga, Tenn., and Tupelo, Miss.

Edward Martin, CCIM, owner of MLC Properties in Atlanta, finds even smaller pockets of opportunity by buying what he calls "B and C properties in A locations." His company recently purchased the note on one such asset and is currently going through the foreclosure process to take ownership. In return for getting a delinquent loan off its books, the bank that sold the note is paying for the bankruptcy procedure. "I'm not interested in being a note holder at all and told the bank so," he says.

Commercial real estate experts who can identify the lucrative needles in their local-market haystacks will be the best performers in the years ahead, Fasulo predicts. "2010 is going to be all about understanding the dynamics of your local market, even down to block by block, asset by asset," he says. "Investors are going to have to fight to make great returns."

Student Housing Makes the Grade
CCIMs seeking a multifamily niche with plenty of demand from both investors and renters need look no further than student housing. Cap rates for student housing increased 50 basis points in 2009, while the average price rose 5 percent. Both measures outperformed those for traditional apartments, according to Marcus & Millichap's 2010 national multifamily report.

Consider the University of South Carolina campus in Columbia, S.C., where private developers have added more than 1,900 student-housing units since 2007. Despite the increase in product, occupancy remains around 97 percent, says appraiser Michael Dodds, CCIM, managing director at Integra Realty Resources in Columbia. "The university works well with developers and actively refers potential tenants to the off-campus developments."

In 2008 alone, four complexes totaling more than 800 units sold at prices ranging from $97,000 to $152,000 per unit in Columbia. Projects include both new construction and renovations, such as Philadelphia Management's conversion of the historic Olympia and Granby Mills into student complexes with four-bedroom units as large as 2,800 sf.

Student housing often reflects class A finishes and amenities, a characteristic that tends to place those assets out of many private investors' price range, says LyLy Fisher, CCIM, owner of Fisher & Co. Real Estate in Austin, Texas. Prices of $30 million to $40 million for a single complex are common. Still, Fisher finds it easier to line up investors for student housing than for conventional multifamily deals. "I have a waiting list of investors who are ready, willing, and able to pursue student-housing projects," she says.

Local banks that understand the university and market are a good source of leverage for campus-oriented multifamily projects, according to Ken Etterman, CCIM, managing principal at Redfish Advisors in Asheville, N.C. Etterman's company recently obtained construction loans on three separate student-housing projects for a total of $45 million in financing. Rental demand and cash flow are seldom problems in this niche, so the deciding factor on qualifying for most loans in the sector is equity. Etterman says borrowers should be prepared to plunk down 20 percent to 30 percent of the project price in cash.

Investors need educating before attempting student housing projects. Renters today expect one bathroom per bedroom, with two-bedroom, two-bath and three-bedroom, three-bath units preferred, Etterman says. The difficulty of adding bathrooms to older, four-two units make rehabbing many properties impractical, so are habilitation may require teardown and replacement.

Property management also is a key to a success, experts say. "These projects are not successful if they are managed as traditional multifamily properties," Etterman says. "They require a higher level of management and oversight, so it's probably wise to involve a third-party manager with a focus on student housing."

Distress: Gold Mine or Mine Field?
Failed residential condominiums are a fertile field for distressed opportunities, but the risks are high, according to John W. Stone, CCIM, director of multifamily investments at Colliers Arnold Commercial Real Estate Services in Clearwater, Fla. If the subject property has even a few units that have sold to individual investors, then condo laws can impose severe restrictions on what a buyer can do with the rest of the property. In addition, debt financing is nearly impossible to obtain for broken condo projects, so buyers should prepare for all-cash closings.

Units built to be condos tend to be larger than apartments, and that means rental rates need to be higher per unit to cover the cost of the property. Association fees and taxes for each unit may run $1,000 per month, so usually the only viable option is to liquidate the condo units, Stone says. For apartments converted to condos, the size and value of individual units is usually smaller, so those properties are more readily operated as apartments to help offset the investor's expenses during a hold period. While investors may convert the entire property to for-rent, ultimately the best returns for these assets come from selling the units as condos once demand has recovered. Timing is critical. "This is a very high-risk business," Stone says. "If you're off by even a year with what it takes to unload these units, your yield could be dramatically affected." Investor Andrew Mittler, CCIM, principal at Optimal Properties in Austin, Texas, has acquired a range of assets from banks and distressed sellers. His team looks for assets suffering from poor management, which provides additional upside potential via rehabilitation and better operations.

All of a CCIM's training comes into play in working with distressed assets, Mittler says, from valuing properties and financial instruments to projecting cash flows and performing other analyses. "This is the time when people who can fix problems ought to be buying properties," he says. "If you're a beginner, you've got to tread really lightly."

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	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%