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LAEDC Business Expansion Report Reveals Signs of Economic Recovery in Southern California Five County Region
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(*LAEDC)*

International trade and professional business services set the expansion pace in 2009

Los Angeles— Major business expansions jumped more than 10 percent in the L.A. five county region, according to a new report released today by the Los Angeles County Economic Development Corporation (LAEDC). A “major business expansion” is defined as a new lease or expansion of at least $1 million in value or of 20,000 square feet or more.

“This is welcome news,” said LAEDC Chief Economist and co-author Nancy D. Sidhu, Ph.D. “Activity had been declining since 2004 when 348 major expansion projects were recorded. The total square footage recorded in 2009 was 21.5 million, up by 4.6 million square feet from 2008. Activity varied across the region and largely reflected the disparity of the economic situations in the five counties, with some areas posting sizable gains while others continued to languish.”

Orange County enjoyed a considerable boost in leasing activity. Major projects there used more than six million square feet of space in 2009 in contrast to just 2.2 million square feet in the prior year. Similarly, expansion projects in San Bernardino County totaled more than five million square feet compared with 2.2 million in 2008. Riverside County’s major expansions totaled more than 4.3 million square feet, an increase of 180,776 square feet over 2008.

On the downside, Los Angeles County’s major expansions came in at only about 5.7 million square feet during 2009, a drop of 1.9 million square feet from 2008. Ventura County’s total square footage fell by nearly 600,000 square feet to just 145,855 square feet during 2009. “There is some light at the end of the recovery tunnel with Orange County and San Bernardino County both experiencing noteworthy upswings in leasing activity,” said Founding Economist Jack Kyser of the Kyser Center for Economic Research at the LAEDC, who also coauthored the study. “Still, we must not get too far ahead of ourselves. With the uncertain economic outlook, businesses will be more cautious in expanding their facilities in the next few years and project financing will be more difficult to come by.”

By industry sector, “Other” industries posted the largest number of major expansions in2009 with 42, up from 32 in 2008. “Other” manufacturing had 27 major expansions, down from 39 in 2008. Logistics & Warehousing and Professional Services (which includes accounting, law, architecture, engineering and personnel services) came in next, with 23 major expansions each. Compared with 2008, Logistics & Warehousing was up by five major expansions, while Professional Services was down by four. Notable gains were made in Apparel & Textiles, which recorded 17 major expansions in 2009, and Technology with 15. Both industry sectors recorded just four major expansions in 2008. Los Angeles’ renowned entertainment industry (9), Autos (6) and Biomedical (5) industries all remained flat from 2008 to 2009.

“This is consistent with our ‘Forecast’ released last month calling for international trade, tourism and technology industries to lead the recovery in 2010-2011,” said Kyser. The LAEDC Report showed foreign firms accounted for seven major projects during 2009, down for the second year in a row from the 2008 count of 11 major projects. The foreign direct investment expansions came from Canada (2), Germany (2), Belgium (1), Hong Kong (1) and Iceland (1).

Three of Four Executives Expect Commercial Property Values and Rents to Keep Falling in 2010: Deloitte Survey
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Edited: Jennifer Brenner (Global Viewpoints of Commercial Real Estate)
Source: Deloitte

Roughly three-quarters of executives expect both commercial property values (76 percent) and asking rents (73 percent) to continue to fall in 2010, according to a recent online survey of more than 325 executives conducted by Deloitte.

"The commercial real estate market continues to be adversely affected by one of the deepest recessions in decades. Increased unemployment has resulted in less demand for office space, reduced rents and an overall decline in commercial property values," said E.J. Huntley, principal, Deloitte Financial Advisory Services LLP and national leader of the real estate consulting practice. "Right now, commercial real estate executives are weighing their options, determining if the time is right to invest while prices remain depressed and before interest rates begin to rise."

Roughly three-quarters (74 percent) of executives expect interest rates to rise in 2010, with 48 percent expecting rates to increase by 50 basis points or more, according to the online survey. Executives also think cap rates (59 percent) and discount rates (57 percent) will rise; 40 percent predict cap rates to rise by 50 basis points or more and 35 percent anticipate discount rates will rise by 50 basis points or more.

Almost two-thirds (63 percent) of executives surveyed predict that a full recovery of the market will require two to three years, while 29 percent believe a full recovery will take four years or longer. Only 8 percent anticipate a full recovery within the next year.

"A recovery of the commercial real estate market from its current contraction will be protracted," said Huntley. "As a result, many commercial real estate executives are contemplating opportunistic investments."

Nearly half (47 percent) of executives surveyed were either already investigating potential acquisitions, or expect to begin doing so within the next year (20 percent).

Nearly half (46 percent) of respondents feel today's lower prices make it more financially advantageous to buy rather than lease. In fact, 51 percent of real estate company executives and 39 percent of commercial property tenants said their companies are currently investigating potential acquisitions.

Deloitte contracted Bayer Consulting to conduct an online survey of 327 executives, including 186 executives from real estate companies and 141 executives from corporate tenants, regarding real estate recovery. The survey was conducted from December 2009 to January 2010 through an online questionnaire.

Among the executives participating in the survey, the corporate tenants represented a range of industries with the largest concentrations in professional services (28 percent), financial services (19 percent), retail (11 percent), life sciences and healthcare (9 percent) and technology (7 percent).

The executives participating are from companies representing a range of sizes as measured by annual revenues. Among tenants, 46 percent had revenues of $1 billion or more, 21 percent had revenues of $100 million to $1 billion and 33 percent had revenues of less than $100 million. For the real estate companies, 20 percent had revenues of $1 billion or more, 35 percent had revenues of $100 million to $1 billion and 45 percent had revenues of less than $100 million.

The Incredible Shrinking Office Employee
科技進步讓員工可以在辦公樓以外隨時隨地工作，將可能減少公司需要的辦公面積

By Keeley Webster (Reprinted with permission from CREJ)

Technological advances that enable employees to work outside of the office have some commercial real estate experts wondering if the office market will ever return to pre-recession levels.
"I think the impact on the demand side from technological advances could be 20 percent or maybe more," said Jerry Porter, chairman of Cresa Partners. "When you add that to slow growth and no growth in jobs, we could have five years worth of inventory nationally."

Porter recently attended a Corenet Global conference in San Francisco attended by many of the tenants who occupy large spaces in California high-rises such as Nokia, Corus, and Bank of America.
Porter said he heard the same comments from the real estate directors of many corporations - that only 30 to 40 percent of the square footage in the offices their firms occupy have people sitting at their desks on a regular basis.
"The rest are working from home, working from airports, working on their lunch breaks, but they are not sitting at their desks," Porter said.

But others such as Christopher Lee, president and chief executive officer of CEL & Associates Inc., a management consulting firm, said more immediate issues like the lack of net job creation in the country would have more of an impact over the next 24 months.

Over the long term, Lee said the trend toward hiring independent contractors to work on a project-by-project basis would be another factor to affect the demand for office space.
"I think the important message here is that because of the events that have happened, everyone is re-engineering and looking at the value chain," Lee said. "It results in these changes and requires real estate professionals to respond."

Nationally, the office sector experienced negative absorption of 20 million square feet as of April 2009, but the number would have been closer to 450 million if the total available space that isn't leased were counted, according to CoStar Group Inc.

Those numbers have improved slightly over the past year, according to Norm Miller, vice president of analytics for Bethesda-Md.-based CoStar, because of positive absorption experienced in the second half of 2009.
"The huge vacancy is a combination of actual vacant space, available space and excess space simply held for expansion," Miller said. "So it is easy to see where we get to something close to one-fourth of all stock as vacant, available or simply extra."

According to Porter, however, the shadow space on the market is not being held for expansion. Instead, many large corporations, particularly those that are publicly traded, are holding on to space rather than leasing it so they don't have to do a write-off on the losses, which could adversely impact the company's stock price.
"It doesn't make sense to take the financial impairment in the current quarter that they will have to take if they sublease," Porter said. "For public companies, if they are paying $3 a foot and they put it on the market to sublease it, they may get $2 a square foot. They would have to do a write down on what they would expect to recover versus what they are actually paying."

The result is that these companies might have a handful of employees working on an otherwise empty floor, he said.

"Anyone who has downsized in the last two years has shadow space," Miller said. "One way to tell is if you look at the square footage per employee - when they get really large, like to 225 or 240 per square foot - we know they are not leasing that much per employee."

Divorcing the Desk
The average square footage per employee nationally is 175, a number that has been moving downward for the past 20 years, Lee said.

Interactive Data Corp., a market research and analysis firm specializing in information technology, telecommunications and consumer technology, has estimated that 75 percent of the workforce would be mobile workers by 2011 - working outside of the office 20 percent of the time - meaning they would work at least one day a week outside of the office, said Lenny Beaudoin, managing director of Workplace Strategy in the Atlanta office of

CB Richard Ellis.
"The recession has accelerated this and put more pressure on corporations to implement it," Beaudoin said. "Employees are more aware of how the company spends money and there is more willingness by them to embrace organizational change, where historically there has not been."

Ten years ago, according to Porter, firms tried ideas like hoteling and work from home and they failed miserably, but technological advances and increasing cultural acceptance of different work styles are ushering in changes. More organizations find alternative work spaces more palatable when they are under economic pressure, said Bethany Davis-Swanson, director of Workplace Concepts & Strategy in the White Plains, N.Y., office of Nokia. Some companies saw an opportunity to consolidate from two locations into one, but if they did consolidate offices they would not have a desk for every employee. Companies find that if they separate their employees from their desks, they have more flexibility to grow or shrink their workforce without making changes to their real estate. "Some of it is about reducing cost and some of it is about creating more collaborative environments," Porter said.

Working From Where You Work Best
Technology companies in such areas as the Silicon Valley began pioneering some of these concepts during the economic boom of the mid-2000s because they couldn't get space fast enough, so they had to use existing space better.

Today's economic crisis has more traditional companies like financial firms looking at reducing real estate costs by creating office space that takes advantage of a more mobile workforce.
"They recognize a willingness by younger employees to do it," Beaudoin said. "They realize during the current downturn they have lacked the flexibility to deal with change and they realize the benefit of being more nimble in the way they occupy space."

Although companies can save 30 to 40 percent on real estate costs by decreasing the amount of office space they hold, it is not just a matter of sending employees off to work at home.
"We advocate a work-from-where-you-work-best solution, rather than a work-from-home solution," Beaudoin said. Instead of hoteling, the predominant alternative workplace strategy of the past decade where employees would schedule time at a desk shared with a few others, corporations now have areas with unassigned desks that anyone can use.

Other changes include adding rooms with separated sit-down telephone kiosks where employees can make phone calls. The increase in the number of mobile workers also is ushering in a move toward creating more common areas so that when people are in the office they can collaborate.

"In the early days, we didn't make as many changes to the physical space. It was just about sharing desks," Davis-Swanson said. "We found sharing old desks, which were large and individualized, no longer suited the way people worked. People who worked at home were saying when they came to work they wanted to be more collaborative."

Eliminating the cubicle environment allowed for touchdown spaces or lounges, phone rooms and informal cafÃ© spaces.

"A lot of organizations today believe that your virtual persona is more important than your visible persona," Beaudoin said. "Instead of defining whether you are present in the building for water cooler confabs, it takes into account the interactions occurring as a result of e-mail and instant messaging."
A recent AT&T study that showed that the average telecommuter gives back half of the time saved by not commuting to the company, Beaudoin said. Workers freed from a 90-minute commute, for example, were working an additional 40 minutes per day, he said. "People are much better at virtual team collaboration than they were 10 years ago because people are already using a lot of the technology in their personal lives," Davis-Swanson said. "A decade ago, if you worked from home you were hobbled. You might have been able to do quiet work but you were not connected to the organization's heart."

A mobile employee herself, Davis-Swanson works from home two days a week. When she is in the office, a typical day might start in the phone room contacting clients, head next to a bullpen area with open tables where her team can meet and then she might move into a meeting room with her laptop.
Often, employees without permanent desks have storage cabinets that they can roll over to the area they are working.

"My storage cabinet is on the second floor," Davis-Swanson said. "I have been back from maternity leave for a year and I have been to my storage cabinet once. It is all in my briefcase."

Bed Checks
One national client has Cresa employees doing "bed checks" three times a day at its 50 offices nationwide to see how many employees are seated at their desks regularly, Porter said. Their findings have concluded that only 36 to 38 percent of their clients' workers are sitting at their desks regularly.

If the client has 100,000 square feet currently occupied by desks, it could instead arrange the office so that 50,000 square feet had assigned desks and the other half had unassigned desks. The assigned desks could be used by 100 people rather than 50, eliminating the need for an additional 50,000 square feet of space, Porter said.
One deterrent to the trend, however, is that it can be expensive to reconfigure space, Porter said.
"How do you justify the capital cost to reduce the position of your space?" he asked. "It is tough to justify spending money in a terrible economic environment to save money tomorrow."

But in the end, you save money by leasing space for fewer people. As a result, many clients are trying to time changes in how they use space with lease expirations.

"We are seeing a tremendous uptick in financial services clients looking at this," Beaudoin said. "We are doing a lot of work with a large Canadian bank. Also, a global bank with branches in the United States and United Kingdom is pursuing this."

Despite the enthusiasm by office users to adapting office space for mobile workers, Miller said he thinks the shrinking of space per worker will continue to be gradual over the next 20 years as it has over the previous two decades.

He also expects that the general lack of large amounts of contiguous space means that office construction should resume after the market bottoms out next year.

"While tenants may sit on extra space with room for expansion, it is not evenly distributed or easy to transfer to other tenants," Miller said.

State Portfolio Has 400 Potential Buyers and Counting
加州州政府變賣共八百多萬尺的大型辦公樓，已有 **400** 多買家表示有興趣

By Greg Kane (Reprinted with permission from CREJ)

Hundreds of potential buyers have shown interest in the $2 billion portfolio of government-owned office buildings that went up for sale in late February, boosting hopes that the proposed sale-leaseback arrangement will lead to a windfall for the financially struggling state.

More than 400 parties representing a range of domestic and international investors registered with the state Department of General Services by mid-March as having interest in the portfolio of 17 fully leased office buildings located across the state. Kevin Shannon, the vice-chairman of CB Richard Ellis based in Los Angeles who is handling the portfolio, said the activity suggests a "heated competition" for the buildings as the April 14 deadline for bids approaches.

In fact, the interest is strong enough that Shannon believes the properties could net more than the $2 billion asking price. Although the overall market for office buildings in California has been dismal for the past few years, demand for high-quality, revenue-producing assets is on the upswing - and fully leased government buildings fit that bill, he said.

"Core offerings up and down the state are being well received," Shannon said. "Pricing has clearly increased for these assets in the past two quarters. We're thinking we can exceed that [$2 billion], but the market will be the final judge of pricing."

If the offers do surpass the state's projections for the real estate portfolio, it would be the first time it has happened this year.
The recent offering of the 150-acre Orange County Fairgrounds property is in limbo after the bids received in January fell well short of what state officials anticipated.

But the fairgrounds property and the office portfolio share little in common, experts said. The fairgrounds are seen as a long-range investment based on the potential for future development. The office properties, on the other hand, guarantee landlords a stable tenant and steady revenues for the next two decades, said DGS spokesman Eric Lamoureux.

"Buyers are now looking for far more stable, long-term tenants with less risk," Lamoureux said. "That's what we believe we can offer here."

The 8.7 million square feet of office space spanning properties in Sacramento, San Francisco, Los Angeles and other California cities was cleared for sale as part of the budget deal reached last summer. Under the proposal, the state would sell the properties and then agree to lease the space for at least 20 years.
It's not known what specific investors have shown interest in the portfolio. Shannon said the list includes institutional investors, public and private real estate investment trusts and domestic and foreign high-net-worth private buyers.

Owning a Piece of Earl, Hiram and Ronald
The 11 properties include 17 buildings, most of which are located near the state Capitol in Sacramento. Notable buildings include the $464 million Capitol Area East End and $397 million Franchise Tax Board complexes in

Sacramento, the $358 million Earl Warren/Hiram Johnson Civic Center in San Francisco and the $182 million Ronald Reagan State Building in Los Angeles, according to state records.

The state still owes more than $1.3 billion in bond funding on the properties that would need to be repaid from the sale's proceeds, officials said. The remaining proceeds - anticipated to be around $660 million - would be injected into the state's general fund to help offset an estimated $20 billion budget deficit in the coming year.
The one-time infusion of capital into state coffers is not the only benefit from the transaction, Lamoureux said. The long-term lease deals that are written into the transaction allow the state to lock in rents at terms far below where they were several years ago.

Lease rates will differ depending upon the market but are expected to average in the mid- to low-$2-per-square-foot range, Lamoureux said.

"They'll be at the respective market rates for each region," he said. "It allows us to lock in rates that haven't been seen in years."

But those rates have the potential to increase over the course of the 20-year lease. The base lease rates can be increased by up to 10 percent every five years, officials said.

The state expects the sale-leaseback agreements to generate nearly $216 million in annual rent at the combined properties. Under the terms of the extended lease structure, that figure could be closer to $316 million a year by the time the 20-year lease expires.

Still, state officials believe there will be savings for taxpayers not only this year but for multiple years down the line. Since the state would no longer own the buildings, it would no longer be on the hook for maintenance or improvements, Lamoureux said.

"We by no means believe this is going to be a fire sale," he said. "We're going to get good value for these properties and help shore up our state budget situation. And by no longer having to deal with the cost of maintenance or any future outlays, there are savings in the long run as well."

95 Percent Occupancy
Selling the buildings and retiring the bond debt that is associated with most of them also will give the state more flexibility to pursue options such as subleasing space to the private sector, Lamoureux said. All but three of the properties are bond-funded, which triggers a requirement that they be filled to at least 95 percent occupancy with state offices among other stipulations, officials said.

It's that high rate of occupancy that is attracting investors to the state office portfolio, Shannon said. Even the state's strongest office markets have struggled with double-digit vacancies in the past year to 18 months, and the security of a relatively stable employer such as state government locked into a long-term lease has attracted a high amount of interest.

Investors, particularly pension funds, insurance companies and other institutional entities increasingly covet such high-performing core assets. The California Public Employees Retirement System, for example, recently announced its intent to shift its real estate investment focus on such properties, and others have been targeting them as well. Sean Fulp, a broker specializing in investments with Cornish & Carey Commercial/Oncor International in Sacramento, said buyers have been competing for such investment-grade product in recent months because there is so little of it on the market. Owners of high-quality assets are likely to hold on to the properties in the current market unless they are forced to sell.

"There's definitely a scarcity of premium that we're seeing in the market right now," Fulp said. "There's more money right now than core product to put it into."

The state's 17-building portfolio certainly fits the description of a core product, Fulp said. But considering the current demand in the market and the size of the state's offering, Fulp said he expected far more investors to sign confidentiality agreements with the state showing interest than the 400 that had done so by mid-March, considering that the majority usually aren't serious buyers.

"I was surprised to see it that low," Fulp said. "This is one of the premier offerings on the market across the globe, and you're only able to get 400 confidentiality agreements?"

There are investment experts who raised doubts about whether the state could get the $2 billion for the portfolio, but Shannon expects the figure to be met or surpassed. It's not clear how the state would respond to a situation in which no bids meet the $2 billion mark, although in the case of the Orange County Fairgrounds, DGS acting Director Ronald Diedrich rejected all of the bids.

The state had hoped to receive at least $90 million and as much as $180 million for the property in Costa Mesa. But of the six proposals received in January, the highest bid was $56.5 million by Craig Realty Group. Diedrich rejected the bids on March 17, saying the offers were "not in the best interest of the citizens of California" and pledging to remain committed to selling the property in the future.

Shannon does not expect the situation when the office portfolio bids come due in mid-April to mirror that of the fairgrounds, considering the current demand in the market. The investment momentum that began in the fourth quarter of 2009 matches perfectly with the properties that the state is now offering.

"The trends in the capital markets are in our favor in terms of getting higher pricing," Shannon said. "We'll see how it plays out, but it is a privilege to have this type of product available at this stage of the cycle."

Retailers Reenter Inland Empire Industrial Market
大型零售商入駐內陸地區（San Bernardino & Riverside）

By Kari Hamanaka (Reprinted with permission from CREJ)

The store closures and retailer bankruptcies of the past two years are giving way to an industrial revival as companies armed with confidence and growth plans look for Inland Empire warehouse and distribution space. "There is a divergence between what we saw a year and a half ago," said Tim O'Rourke, executive vice president in the Los Angeles office of Jones Lang LaSalle. "Some of the companies that filed bankruptcy have exited it completely. It's almost like a resurgence of the market."

While some companies have closed their doors for good, other retailers are stepping up or stepping back into the Inland Empire as seen with a slew of industrial transactions late last year and into the first quarter.
Most recently, a groundbreaking was held March 12 on a 1.8 million-square-foot facility for Skechers USA Inc., which will be the first tenant in Highland Fairview and the Trump Group's Highland Fairview Corporate Park in Moreno Valley.

Construction of Home Depot's rapid deployment center, which is being developed by ProLogis, is one of the more talked-about deals. The 667,000-square-foot built-to-suit in Ontario will join a facility that already has been built in Redlands.

Retailers seeing growth of online orders also are looking for space as seen in the deal involving Kohl's Department Stores.

In March, the company announced it had closed on its acquisition of a 970,000-square-foot distribution center in San Bernardino. The facility will handle all of the company's Western region online orders and is located next to an existing Kohl's distribution facility in the city, according to Ken Bonning, Kohl's executive vice president of store planning and logistics.

Another retailer, Zumiez Inc., has an existing facility in Everett, Wash. dedicated to online sales, but it recently made the decision to relocate its other distribution center to the Inland Empire while retaining its headquarters in Washington. The company, which sells sports-related youth apparel, acquired a 168,450-square-foot distribution center in Corona in February.

Though small by Inland Empire standards, the new building and the decision to locate in the region parallels many other retailer decisions to have distribution facilities in the region.
"Since the majority of our vendors are located in California, this move makes sense," said Trevor Lang, Zumiez chief financial officer. "It will trim transportation time, increase the speed of getting inventory to our customers and reduce freight and distribution costs."

According to Zumiez's fourth-quarter earnings conference call, the company plans to open 25 stores this year.
Dollar Tree, one of the many retailers that capitalized on cheap rents in desirable locations last year, purchased a 418,000-square-foot building for about $36 million in San Bernardino last year. The distribution center will replace a Utah facility, which the company will rent until the lease expires in April.

Logistical Sense
Despite the economic disruption caused by the deep recession, few disputed the Inland Empire's place in retailers' supply chain strategies. The recent flurry of activity only solidifies the region's importance in the movement of goods.

"What do all those deals have in common? They're all deals that you can't find in infill areas," said Thomas Taylor, senior vice president in Colliers International's Ontario office. "You can't find a 55-acre piece to build a rapid deployment center [for Home Depot] anywhere but in the Inland Empire. If you get back in the Los Angeles market, there are no 970,000-square-foot buildings."

Even with the discussions of consolidation, the larger of the recent retail transactions speak to the region's ability to accommodate big-box tastes.

Big boxes, whether it be retail spaces or large industrial distribution centers, are likely to be the first segment of the Inland Empire market to be occupied and built as the market recovers.
"The area of the market that I think is going to skinny down first from an inventory perspective is going to be the bigger boxes, say 700,000 square feet and larger," Taylor said. "There has been some activity and there's interest in those buildings and no one's building them. It's not going to happen now, but that day [for the big box] will come first."

For companies that do choose to consolidate, many have remained in the Inland Empire.
O'Rourke and Mike Fowler, executive vice president in Jones Lang LaSalle's Los Angeles office, represented Big O Tires in a fourth-quarter lease on a 260,000-square-foot building in Mira Loma. The facility replaces three existing buildings in Ontario and Redlands totaling 450,000 square feet.
O'Rourke said Big O Tires decided to consolidate in the interest of efficiency and having a facility located in the western Inland Empire.

Having distribution space in the Inland Empire makes sense not only for retailers looking for a lot of space but those looking at serving the nearby population.

"It's much less expensive than other parts of Southern California and from a logistics and transportation perspective, you're in the center of Southern California," O'Rourke said. "You also have Vegas and Northern California. That's an area of 60 or 70 million people, and with the Inland Empire you have the ability to dray product from the Far East."

Walt Chenoweth, senior vice president in CB Richard Ellis' Ontario office, added that aside from the ports, the region has the transportation infrastructure for companies to move goods throughout California and into other states.

"Specifically for larger retailers, it's the most cost-effective warehouse location close to the ports where they are getting a lot of their product," Chenoweth said. "For any of these companies in the Inland Empire, it's got a great transportation network with north, west and south freeways that can get you into any market in the southwest United States conveniently."

Where the Market Is
As for the overall industrial market, things were beginning to look up for Inland Empire industrial in the first quarter, though the market is not without its struggles.
"The vacancy rate increased dramatically starting in the summer of 2008 through 2009," O'Rourke said. "Although we still have a high vacancy rate, activity has picked up dramatically. The value of real estate depending on the

class has dropped anywhere from 30 to 50 percent. That's why retailers and companies with confidence in their business plans and willing to survive in this economy are going to take advantage of this market."

According to Jones Lang LaSalle's North America Industrial report, there were eight lease transactions of more than 100,000 square feet that closed in the Inland Empire during the fourth quarter. A total of 12 new leases were signed, while there were six lease renewals signed during the quarter.

On the investment side, Jones Lang LaSalle reported seven sales of more than $10 million in the fourth quarter, an increase from only one sale reported in the third quarter.

"At the right price, there's a lot of users interested in buying buildings," Taylor said. "I think users are perceiving the value out there. If the opportunity presents itself, they will be buyers as compared to tenants. There's certainly plenty of leases going on and I do think there are a lot of users interested in buying."

Taylor added that he has seen price-per- pound buying coming back to the market with buyers investing based on a building's perceived value and the expectation that the market will improve eventually.

"Sales prices have improved a little bit - from the bottom," he said. "Lease rates are about the same - the biggest challenge being that there's so much availability."

Many retailers that were leasing space have jumped on the opportunity to become owners.
"One kind of interesting item to note is typically we don't see a lot of purchases of the larger type of facilities," Chenoweth said pointing to the Kohl's, Zumiez and Dollar Tree acquisitions. "There have been a lot more purchases than what is typical over the last quarter."

He pointed to Cooper Lighting's acquisition of 272,000 square feet at the end of last year as a good example. The company decided to move from Ontario where it was previously leasing a facility to Rialto where it became an owner.

Many of the deals that have closed recently, while the buildings are located in the eastern Inland Empire have yet to make a significant impact on the area's high inventory of available space.
"Unfortunately, as there is absorption there tends to be additional space coming back on the market [though] not necessarily in the Inland Empire east," Chenoweth said.

Most of the buildings in the east are new, making it less likely that an owner or tenant would be interested in other space at this time.

International Paper's distribution center in the Inland Empire west came on the market in mid-March and Wal-Mart also vacated buildings in Mira Loma. The Wal-Mart facilities were related to port activity, thereby reflecting the company's shifting port strategy and where it will need warehouse space in the future.

"It seems like every building that's absorbed, there's buildings coming on the market," Chenoweth said. "So we haven't seen a large decrease in the vacancy or availability because of that. There have been slight decreases, but not large decreases."

Real Money: Freddie Mac To Accept Mezz Financing on Multifamily Deals
房地美開始批准公寓地產的夾層債務（具備資格的公寓樓可能得到 90%的貸款）

By Mark Heschmeyer (CoStar)

Freddie Mac yesterday introduced a mezzanine financing arrangement that will allow mezzanine debt on qualifying senior multifamily mortgages (first mortgages) it purchases. Freddie Mac is partnering with experienced multifamily players to help bridge the capital gap for borrowers who need to finance or refinance overleveraged multifamily properties whose value has declined.

While the program will allow borrowers to finance up to 90% of apartment purchases, Freddie Mac emphasized that the program is not intended to increase leverage at the property level or fuel excessive risk-taking by investors. Freddie Mac said the program is aimed at recapitalizing multifamily properties and easing the painful process of deleveraging.

In addition, the mezzanine portion of the financing is to be backed by the borrower's equity, not the property, so Freddie Mac said is not taking on additional risk with this arrangement.

"The intent is to help the industry reduce the number of properties that may otherwise become defaults, timely workouts or foreclosures if they don't get much-needed financing," said Mike May, Freddie Mac senior vice president of multifamily. "We are working with mezzanine providers who are experienced multifamily owners, operators, or investors to help fill the capital gap due to reduced property valuation compared to existing financing."

Over the last few years, the apartment finance industry has undergone significant changes that have resulted in a capital gap for many owners. Tighter lending standards, declining property values, and fewer capital players have combined to put several apartments at risk of default at loan maturity. This program seeks to fill this gap for experienced borrowers in good standing.

Under the program, Freddie Mac seller/servicers (multifamily lenders) will originate a first mortgage with a loan-to-value ratio (LTV) of up to 75%, and then work with the mezzanine lender to provide additional leverage, up to another 15% for their borrower. This allows property owners to borrow up to 90% of a property's value.

Freddie Mac will then purchase eligible first mortgages from its seller/servicers to either retain in its portfolio or securitize into its K Certificate multifamily mortgage backed securities. The mezzanine providers will also have the capability to bid on the b-piece of a Freddie Mac K Certificate if the first mortgages are securitized.

Mezzanine financing is available for qualifying loans that meet the following criteria.
- Loans refinanced from either Freddie Mac or non-Freddie Mac portfolio
- Take-out of existing construction loan financing
- Acquisitions
- Properties/assets in good physical condition and experienced sponsors
- Stabilized Class A and B conventional multifamily properties
- Capital Markets Execution loans (loans intended for Freddie Mac K Certificate multifamily mortgage-backed securities), portfolio executions and structured transactions

Additional Terms
- Minimum 10% cash equity in the property required
- Maximum 75% loan-to-value (LTV) ratio on first mortgage

- Maximum 90% combined LTV ratio
- First mortgage must be fixed-rate
- Mezzanine debt may be fixed-rate or adjustable-rate mortgage (ARM)

Property Financings

HFF secured financing for the following deals.

· A $26.55 million refinancing for The Village at Muller Park, a 248-unit / 668-bed luxury, off-campus student housing community serving students attending Indiana University in Bloomington, IN. The financing was secured through a 10-year fixed-rate loan through M & T Realty Capital Corp. - Fannie Mae. Debt service payments are based on interest-only for the first two years followed by a 30-year amortization.

· A $25.9 million refinancing for Sawyer Heights Lofts, a 326-unit Class A multi-housing community in Houston, TX, on behalf of Martin Fein Interests, Ltd. The 10-year fixed-rate securitized loan was placed with Freddie Mac.

· A $5.1 million refinancing for a 63,813-square-foot self storage facility in Newark, NJ, on behalf of the borrower, The Hampshire Cos. The 3-year, fixed-rate loan was placed through TD Bank.

· $3.3 million in financing for Willow Creek, a 77-unit multi-housing community in Beaverton, OR. The 10-year loan carried a 5.77% fixed-rate and was placed through Fannie Mae DUS Lender, M&T Realty Capital Corp. Loan proceeds were used to acquire the property for $4.8 million.

· A $2.5 million construction/mini-permanent loan for Cherry Hill Manors, a to-be-built, 50-bed student housing project at Indiana University in Bloomington.

Arbor Commercial Mortgage funded the following deals.

· A $3.9 million loan under the Fannie Mae DUS Multifamily Affordable Housing (MAH) product line for the 84-unit complex known as Seminole Apartments in Baltimore, MD. The 10-year loan amortizes on a 30-year schedule and carries a note rate of 6.21%.

· A $1.85 million loan under the Fannie Mae DUS Cooperative product line for the 53-unit complex known as 1922 McGraw Avenue Cooperative in Bronx, NY. The 10-year loan amortizes on a 30-year schedule and carries a note rate of 6.05%.

· A $1.615 million loan under the Fannie Mae DUS product line for the 43-unit Sunny Knoll Apartments in Seymour, CT. The 10-year loan amortizes on a 30-year schedule and carries a note rate of 6.15%.

· A $1.4 million loan under the Fannie Mae DUS Small Loan product line for the 16-unit complex known as Pyramid Apartments in Hyde Park, MA. The 10-year loan amortizes on a 30-year schedule and carries a note rate of 5.98%.

Berkadia Commercial Mortgage originated $3 million in fixed-rate, permanent debt to refinance the Curtis Building, a multi-tenanted industrial/office condominium property in Sharon Hill, PA. The loan has a 10-year term and a 20-year amortization. The loan was originated through Sun Life Assurance Company of Canada.

Thomas D. Wood and Co. secured financing on the following deals.

· $2 million for Walgreens at Hawaiian Court in Orlando, FL The company worked with United Financial of America, to finance the deal through Woodmen of the World Life Insurance Co. The fully-amortizing loan has a term of 10 years and an interest rate of 6.125%. The loan-to- value is 37% and loan-to-cost is 36.25%.

· $3.085 million in three separate loans for Pepperwood Apartments, Strawberry Place Apartments, and Lazy Acres Mobile Home Park in Plant City, FL. The loans were placed through The Standard Life Insurance Co. Two of the loans have a 5+5+5+5+5-year term, based on a 25-year amortization and an interest rate of 6.9%. The loan-to-values were 70%. The third carries a fixed rate of 6.75% for a 5-year term, based on a 25-year amortization. The loan-to- value is 50%.

Latest Residential Loan Rates [Slightly Higher than Last week]
最新住宅地產貸款利率【略高於上週】

(Wells Fargo: Home Mortgage)

	Interest Rate	APR
Conforming and FHA Loans		
• 30-Year Fixed	5.250%	5.444%
• 30-Year Fixed FHA	5.250%	6.028%
• 15-Year Fixed	4.500%	4.826%
• 5-Year ARM	4.000%	3.610%
• 5-Year ARM FHA	3.875%	3.443%
Larger Loan Amounts in Eligible Areas – Conforming and FHA		
• 30-Year Fixed	5.375%	5.516%
• 30-Year Fixed FHA	5.375%	6.103%
• 5-Year ARM	4.250%	3.652%
Jumbo Loans – Amounts that exceed conforming loan limits		
• 30-Year Fixed	5.500%	5.643%
• 5-Year ARM	4.750%	3.836%