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Private Equity Money Seeing Opportunities in CRE Again
私募基金開始準備投資商業地產

By Mark Heschmeyer (CoStar)

Fund managers and others involved in the real estate private equity sector expect further deterioration in commercial real estate this year as unemployment leads to lower commercial occupancies and declining rents. And that could be a good thing.

With the sector still in recession, many fund managers are preparing for the beginning of a "generational buying opportunity" that could manifest as early as the first quarter of 2011, according to a survey by Ernst & Young's Real Estate Fund Services.

The survey, *Market Outlook: Trends in the real estate private equity industry 2010,* reveals that most market participants polled expect a gradual opening of debt and equity markets to occur by the end of this year as investors shift their strategy away from preservation of capital and begin to search for higher returns on investment.

But while many have noted the investment opportunity expected as a result of the deep recession, few seem to agree when investors should expect to see those opportunities.

For example, in its 2010 Private Equity Outlook, asset management firm Neuberger Berman said it expects a "a potentially large and sustained period of opportunity," and noted that that distressed real estate is "in" as an investment.

"Lower valuations in the U.S. commercial real estate sector are likely to continue to make debt refinancing more difficult and the distressed investing opportunity for that asset class more robust. The maturity schedule of commercial mortgages may exacerbate this stress, precipitating a need for more equity to be provided to leveraged real estate and, as a result, the potential for change in control. Given the size of the U.S. commercial mortgage market, these circumstances provide a potentially large and sustained period of opportunity," Neuberger Berman reported.

In Ernst & Young's survey, almost nine out 10 U.S. respondents (87%) also said they believe that the availability of debt and equity capital will increase by the end of 2010. However, few respondents see the U.S. real estate leveling out before then. Most expect 2011 to be the year in which investment opportunities start to appear in some abundance.

"Significant amounts of opportunistic capital have been accumulated to invest in distressed real estate, but simply stated, there is not enough distress to go around," said Gary Koster, Ernst & Young's global leader of Real Estate Fund Services. "Real estate lenders are not forcing the issue with respect to maturing debt which is under-collateralized. If the banks won't take action and instead choose to just extend loan maturities, there is little incentive for real estate owners to trade at current valuations. Given the impact that alternatives - such as foreclosure - will have on bank earnings and capital, it's not difficult to see why lenders' 'extend and pretend' strategy is still being widely deployed for maturing loans."

A majority of respondents to the survey clearly said they believe the commercial real estate crisis among U.S. banks is still only in the "middle innings" - 70% expect that banks will feel increasing pressure to trade troubled

loans at reduced valuations or move to foreclose on problem assets by the end of this year.

"The consensus, at least in the US, seems to be that 2011 will be the year in which transaction velocity in the real estate private equity market returns in earnest," Koster said. "However, before fund sponsors can take advantage of the returning market opportunity, they must address any existing problems in their legacy investment portfolios and generally set their houses in order."

The report also points to a central dichotomy in the mindset of U.S. real estate private equity managers.

"The banking community's strategy of deferring the impact of distress is a double-edged sword for the real estate fund sector," Koster said. "The lending community's reliance is a lifeline for investors short on capital and holding problem assets, but it's a challenge for investors long on capital yet to be invested and anxious to put that capital to work at current valuations. Whatever the eventual outcome, one side of the market will ultimately be disappointed."

At least one investment manager Mark Taborsky, executive vice president and product manager at Pimco, said in a March Viewpoint that the reluctance to jump in now also presents its own opportunities.

"We also may see many kinds of opportunities in natural resources, real estate (mindful of the refinancing that will take place on a large scale in the coming years) and in other spaces. But each situation will be different, and most such opportunities are likely to have longer-term horizons," Taborsky said. "After the crisis, there isn't as much willingness for investors to embrace illiquidity. So while liquid markets have rallied a lot, illiquid assets will lag as their liquidity premium gets re-rated. It's going to take time for capital to return to less liquid and longer duration strategies. This itself is an opportunity - the fewer the bidders there are for long-term cash flows, the higher the expected return an investor may be able to command."

It appears Taborsky is not be alone in that thinking. According to an anlysis of first quarter investment activity by CoStar Group, private equity funds have returned to commercial real estate office market as buyers. Private equity investors were net sellers last year reducing their holdings by a net of about $100 million. This year, though private equity investors have upped their holdings by a net gain of about $300 million.

Dramatic Changes Coming in Lease Accounting
新法律將大幅度改變租約結算

*By BILL GOADE and BRANT BRYAN (*Reprinted with permission from the California Real Estate Journal)

Expected changes in lease accounting may have seismic consequences for the balance sheets of public companies: Operating leases will likely be replaced by capital leases, shifting trillions of dollars to balance sheets. With all leases for commercial real estate capitalized this way, the debt of most companies will increase dramatically.

Leases of real estate and equipment have been a critical source of financing used by almost all corporations. However, the assets and liabilities arising from many of those contracts aren't currently found on balance sheets. In an attempt to standardize leases and promote transparency in financial reporting, the rules will likely be changing.

Tenants need to understand the proposed new standards and plan ahead now. Why? Because all leases that exist as of the official change in regulations will reflect the new standards and will not be grandfathered.

Why Are Changes Proposed?
The Financial Accounting Standards Board and the International Accounting Standards Board issued a joint discussion paper that details the changes introduced. The impetus for the proposed changes dates back to the Enron scandal and other corporate bankruptcies that raised concerns about off-balance accounting.

Until this point, FASB and IASB have split leases into capital (or finance) leases and operating leases. With capital leases, assets and liabilities are recognized on the balance sheet. With operating leases, the lessee recognizes lease payments as an expense when they are incurred. Most companies prefer this arrangement, since less debt is reported.

However, the split into these categories has led to concerns:
- Undisclosed liabilities in the form of lease obligations.
- Lack of transparency and comparability.
- Opportunities to structure transactions to achieve a lease classification that is difficult to understand.
- While the balance sheets of corporations are often adjusted to reflect a fair approximation of the debt the leases imply, critics say adjustments are inconsistent and frequently understate the obligations of the leases.

What Are the Specifics of the New Proposal?
The proposed standards are based on the premise that all leases give rise to assets and liabilities.
The proposed new principles for lessee accounting are:
- No distinction between operating leases and capital leases.
- All leases capitalized based on the present value of the lease obligation.
- The capitalized lease value will include base rent as well as residual payments, likely renewals, and contingent rents.
- Rent expenses will cease to exist; the lease will be recognized as an asset.

How Will this Affect Tenants?
Proposed changes will apply to all leases and virtually every organization, since almost all businesses lease assets. In addition to changing the presentation and measures on balance sheets, other challenges include:
- Corporate balance sheets will inflate significantly.

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- Many companies will appear more highly leveraged.
- Expenses related to lease assets will no longer be straight-lined; occupancy expense will be higher in the earlier years and lower in later years.
- Corporations will face a heavy administrative burden since they will have to collect and input substantial data.
- While most companies have not developed a strategy to address this issue, inaction may result in considerable risk. With no response in place, many companies will face an acute short-term dilemma: They may violate their debt covenants and be in loan default.

What Should Tenants Do?

The proposed accounting changes are complicated, with no quick fix. Still, companies need to understand the issues and address the options that meet their needs.

The first step is to meet with accountants and real estate advisors who specialize in capital markets. These experts can review alternatives and help secure financing.

Specific considerations include:

- Buying vs. leasing. Since your assets will be on the balance sheet, it may be more advantageous to purchase your property or equipment.
- Lease terms. Leases of fewer than 10 years will result in higher rental rates but will reflect less debt on the balance sheet. Mid-term leases (10 - 15 years) may result in a comparatively large debt burden. Long-term leases (ideally 20-plus years) may be better financial alternatives due to lower obligations in later years.

Creative financing and lease structures. Many corporations are considering options to free up capital so it can be reinvested. Corporate sale/leasebacks, in which one party sells an asset and then leases it back for a long term, has become more popular as a source of cash.

New financial ratios. These ratios are key to securing capital, as they indicate a company's long-term solvency. Borrowers should begin discussions with lenders regarding proposed changes and risks.

Protect your interests. Consider working with a corporate real estate advisor that exclusively represents tenants, assuring that you have an advocate who avoids conflicts of interest.

What's Next?

An exact date for the formal adoption of the new standards has not been determined. The FASB and IASB boards are planning subsequent meetings on the new proposed standards, which may not go into effect until 2012 or later. Among the issues to be decided are: build-to-suits, short-term and small-sized leases, and contingent rents. To view the discussion paper and meeting notes, visit www.fasb.org or www.iasb.org.

While tenants can't affect how quickly the wheels of public policy turn, they can put their own initiatives in motion. The process may be complicated, and it may incur some initial cost. But the road will be much smoother if the journey starts now, and the long-term payoffs should prove to be significant.

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Foreclosures: Is California In For a Second Wave?
持高不下的失業率與住宅貸款拖欠可能延遲商業地產的復蘇

*By KARI HAMANAKA (*Reprinted with permission from the California Real Estate Journal)

Right sizing for all the wrong reasons - this seems to be the sentiment of the California housing market.

"What you're seeing are signs of things turning positive for all the wrong reasons," said Bruce Norris, president of The Norris Group. "You have the positive signs of low inventory, price firming and ridiculously low interest rates. The problem is you have a record number of people not making their payments so you have a record number of delinquencies. You're looking at the most artificial market we've ever had."

The question housing market watchers are asking is whether California, which became steeped in a subprime mortgage mess with the onset of the credit crunch, is set for another wave of foreclosures. And, if residential stumbles, many expect that commercial real estate's recovery would be held off for that much longer.

The numbers tracking the California housing market are mixed.

MDA DataQuick reported in March that Southern California home sales continued to remain above year-ago prices in February, the eighth month in a row this has been observed. Median prices for a Southern California home stayed the same between January and February at $250,000, according to DataQuick. This was down from the $408,000 median recorded during the year-ago period.

Real estate agents also appear to be seeing an increase in sales and interest from buyers. At the same time, public builders appear to be reemerging in the market, scooping up finished lots - possibly only to retain market share - but the activity still is viewed positively.

But several unknowns remain.

According to ForeclosureRadar, California notices of defaults, which are the first step in the foreclosure process, increased 19.7 percent in February. Factors such as unemployment and housing prices could exacerbate this situation.

"You have the problem again with delinquencies soaring," Norris said. "You have people getting further and further behind and at some point you have to deal with people over a year late and we haven't dealt with all of that."

Unlike the initial subprime meltdown, experts expect the foreclosure impact to be with prime borrowers in higher-priced product.

"You are going to be seeing this with another price range of house," Norris said. "The subprime was very damaging to the inexpensive inventory, and a lot of what's coming is going to be more damaging for the more expensive inventory."

Mark Brandemuehl, vice president of marketing at Redwood City-based Movoto, said the market is working through the problems of 2006 loans, with the median origination date of defaulted loans around July 2006. This situation has not changed in the past six months.

"There are two factors to it," he said. "One is that there are still a lot of loans to reset. The Option ARMs kind of disappeared in 2007, but you've got the five-year resets coming up and then people in more prime kinds of loans are having issues because of the unemployment rate. Then there are a certain number of people so far into the water that they're choosing to walk away."

Entering the Market

As some give away the keys, some are in the market to buy.

"I would say it's cautious," said Louis Cammarosano, general manager of HomeGain, about real estate agents sentiment toward the housing market. "Last year at this time, it was the worst and everyone realized in the last year that home prices had gone down and they were expecting further drops. Now there has been some stability in the market but real estate agents are still concerned about the pricing."

And while there is the homebuyer tax credit incentive for buyers, Cammarosano pointed out California is grappling with an unemployment rate that could still rise and a foreclosure rate that has not slowed down substantially.

"It's still less dire than it was last year," Cammarosano said.

HomeGain released in late March its quarterly home prices survey of real estate professionals nationwide. Thirty-seven percent said they felt prices would increase in California in the next six months.

"It really varies a lot by area still," Brandemuehl said. "In places like the Central Valley, Sacramento and the Inland Empire builders are facing a tough time selling off communities and building up their war chest of new communities. I think, in general, it's bad, but there are certain areas where demand is pretty strong."

In February, Trumark Homes opened two model homes, the first of its 39-home Wyeth Cove project. Six homes were released in the project's first phase. Five of those homes were sold in less than a month, closing at the end of March. The sixth sale was in the process of being written up at the end of March. These initial six sold for between $370,000 and $428,000.

"At Wyeth Cove, these are single-family, detached homes," said Marianne Browne, vice president of sales and marketing at Trumark Homes. "It's an infill site where there hasn't been anything new built in several years. There's this pent-up demand where if you want to buy something new and want to live in Upland, we are without a lot of competition."

The developer also saw condominiums move at its HighLights project in Granada Hills, which are attached units aimed at first-time homebuyers. Units that sold have gone for between $320,000 to $360,000.

According to Browne, the company plans to invest in constrained infill markets.

"We don't want really outlying markets," Browne said. "We want markets that are commuter-close and we just really don't want a lot of competition. We like to be unique in our marketplace."

As for the impact of a possible second wave of foreclosures, Browne does not see it as being significant to the California market.

"I don't believe so because it does add some competition to the market, but I'm hearing initially that with mortgage companies it was very difficult to do loan modifications," she said. "They pretty much had to let homes go into foreclosure before talking to a lender about adjusting interest rates."

Based on the sales Trumark has seen, Browne said the market appears to be leveling off.

"I think that the consumers are regaining confidence slowly - very slowly - because there still is a fear of unemployment or underemployment that still is a factor," she said.

Commercial Delayed

If the second wave of foreclosures does hit, it could delay commercial real estate's recovery, especially in the case of master-planned projects where filled homes fund infrastructure improvements and sometimes help drive demand for retail or office space.

"I'm definitely not seeing new communities [being built] right now," Brandemuehl said. "Those are pretty rare. Builders are continuing to build out communities that they have fully entitled, but I have seen very few built."

Even with some glimmers of hope on the residential side, signs do not point to development of commercial product any time soon.

"I could only speculate on it," Brandemuehl said, "but I personally would be really careful about kicking off any commercial development project in the next couple of years."

More questionable than a rise in foreclosures is what the banks will do with their shadow stock of housing and whether product will be dumped on the market later this year.

According to a report from Standard & Poor's released in February, it will take 33 months to absorb the national supply of shadow inventory. According to the report, any positive signs about home prices can only be attributed to a shortened supply of available foreclosures.

"If the banks, for whatever reason, began mass dumping, clearly supply and demand would be out of balance again," said Michael Vairin, president of Builders Development Group Inc. and president of the Building Industry Association of Southern California. "That would force pricing down. What I'm hearing is that banks likely would not do that unless pressured to do that by regulators. They'd have no reason to dump those and experience compelling losses."

Historically, Vairin added, commercial growth is followed by residential growth.

"The converse is that as residential erodes, then commercial follows," he said. "They're always sort of a lagging factor to the residential market. If the residential market continues to be slow or erode, that would impact small business and commercial real estate. You can see a lot of see-through office buildings right now."

Norris said there is hardly a need for new commercial construction at this time.

"You've got a record number of loan resets coming to the commercial market and you have high unemployment," Norris said. "Companies need less square footage. It shouldn't be pleasant for the commercial market either."

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Too many unknowns are out there for both residential and commercial real estate - employment, interest rates, expiration of the homebuyer tax credit, continued foreclosures and the shadow stock - all of which could cause a relapse in the market.

"The outlook is uncertain," Cammarasono said, "given that there are certain certainties out there that you just don't know the extent of what they're going to be."

10 Myths about Cost Segregation Studies
成本分離能使地產業主最大限度地發揮稅收扣除的折舊而減少當前須付的所得稅

By GARRY E. ADAMS

Lately I ask clients how I can help improve their business. Many respond with "We're having cash flow issues, I need help."

Based on their particular situation, I will recommend one or more key strategies. Most of the time the client has overlooked the increases in cash flow that cost segregation can provide. When I mention cost segregation I'm surprised at the misconceptions about this beneficial service.

Here are what I consider to be the top 10 myths about cost segregation:

No. 1: "My accountant probably did one." In the case of purchased buildings, if you do not have a specific appraiser's report or a professional who has construction cost estimating expertise using national industry costing manuals such as RS Means or Marshall and Swift breaking out the various building components, then you definitely did not have a cost segregation study performed on the building.

No. 2: "I don't want to file an amended return." An amended return is not required. When a cost segregation study is prepared on a property purchased, acquired or improved in a previous tax year, you are allowed to "catch up" on all depreciation that would have been taken as if the cost segregation study was prepared at the date the property was placed in service. All of the catch-up depreciation can be taken in the current tax year, without having to file an amended return.

No. 3: "A cost segregation study won't save any money." If the entity or pass-through entity is losing money, the taxpayer may decide either to carry back or carry forward the losses generated. Thanks to H.R. 3548, which passed on November 6, 2009, you can carryback net operating losses for up to five years. The savings generally range from 35 percent to 46 percent of the additional depreciation generated from the study. For example, if a cost segregation study results in additional depreciation of $1 million then a taxpayer in the 46 percent (federal plus state) tax bracket would save $460,000 in federal and state taxes over four years.

No. 4: "We don't have any assets to reclassify." Generally, 20 to 55 percent of building costs can be reclassified to shorter depreciable lives.

No. 5: "Our chances of being audited will increase." Not according to the IRS. You are filing an automatic change in accounting method, which the IRS has pre-approved. In addition, the IRS has issued a publication to follow in order to record the changes in depreciable lives properly. Keep in mind that you are going from an incorrect method to a correct method and the changes made are generally black-and-white issues within the tax code.

No. 6: "There is no support if the IRS does perform an audit." There are hundreds of IRS rulings, procedures and court cases that allow for cost segregation studies. The report we provide details every change with applicable support and documentation. Our firm has spent more than a thousand hours on researching cost segregation studies and performed thousands of such studies.

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No. 7: "We will get the deduction in the future anyway." Yes, this is true, but not having a cost segregation study performed in effect gives the federal and state government an interest-free loan for the first 15 years of the asset's life. Who do you want holding your money? There are also advantages to doing a study if the building is going to be sold or upon the death of a building owner.

No. 8: "We are in an alternative minimum tax situation and/or the cost segregation study will put us in one." Congratulations! You are probably flush with cash. If this does occur, the savings will be at the 28 percent federal tax rate and not the 35 percent tax rate. Of course, the amounts are large enough so that it shouldn't matter. In addition, the AMT taxes can be used against regular taxes in future years.

No. 9: "My CPA has segregated percentages of construction costs based on invoices or contractors application for payment, so our company is already benefiting." Without the contractor/engineer expertise coupled with the tax law guidance, there will likely be valuable tax benefits left on the table. More importantly, this methodology will not withstand IRS scrutiny.

No. 10: "There is no negative impact to not performing a cost segregation study." This is an incorrect assumption. IRS regulations require that a taxpayer compute depreciation on what is allowed or allowable. Therefore, if you improperly depreciate a seven-year asset over 39 years, the IRS could disallow the depreciation on the asset beginning in eighth year. In addition, if the building is sold the IRS could increase the gain by reducing the basis in the building by the depreciation that should have been taken in prior years, but was not.

101 Freeway Park Proposal Ramping Up
101 高速公路上可能建造公園

*By ALEXA HYLAND (*Reprinted with permission from the California Real Estate Journal)

The idea of creating a public park out of thin air above the Hollywood Freeway may not be a pie-in-the-sky notion anymore.

Rep. Xavier Becerra (D-Los Angeles) has agreed to request $5.85 million to launch planning for the park. That's viewed as a crucial early step and vote of confidence.

"We were surprised," said Laurie Goldman, president of the non-profit created to spearhead the effort, Friends of the Hollywood Central Park. "We didn't think we would make it this round, but we did. It doesn't mean we will get what we asked for, but it's a huge first step of many steps."

The park, which would be built on a concrete cap atop the Hollywood (101) Freeway, has been favored largely by business groups. The money to build the park – estimated at $950 million – would come mainly from foundations.

Of course, there's no guarantee that the federal funding for planning will win approval. But if it does, it could put the park on a slide toward reality. That's significant partly because the idea for the park has been viewed by some as a nice concept that probably wouldn't go anywhere, especially with the downturn in the economy.

The Business Journal first reported the park proposal in October 2006. Don Scott, senior vice president at First Financial Bancorp, told his fellow Hollywood Chamber of Commerce board members about the idea and they adopted it.

The chamber called for a park that would cover from Hollywood to Sunset boulevards between North Bronson Avenue and North Wilton Place. That would mean stretching the park over the freeway on a platform, or "cap," that would turn the open-air freeway into a tunnel.

Councilman Eric Garcetti led a City Council vote in 2007 that expanded the project, which now would stretch from Hollywood to Santa Monica boulevards and boost the parkland to 44 acres.

The project would generate 4,500 construction jobs in the short term.

Gary Toebben, president and chief executive of the Los Angeles Area Chamber of Commerce, said the park's biggest economic benefit would be in the long term: The grassy tree-lined area would boost business for nearby establishments and drive the development of new ones.

"Having a park there will do what other parks do – encourage people to come there and walk around," Toebben said. "Usually, that's a real asset to the businesses around the park. And certainly, it's a place right now where it's a freeway, so you don't have people who are lingering in that area right there because it's not possible."

Leron Gubler, president and chief executive of the Hollywood chamber, said his organization has supported the plan because it would be good for area businesses.

"We wouldn't have undertaken the project if we didn't think this would be good for the businesses," Gubler said. "It takes the community to the next level."

Needing green

Hollywood has seen a boom in apartment and condo buildings thanks to efforts to revitalize the area. Those include the W Hollywood Hotel & Residences, with 143 condos and an adjacent apartment building, and the Sunset Vine Tower, a mixed-used development with 63 luxury apartments.

As the redevelopment of Hollywood continues, the need for green space becomes more apparent. While all of Los Angeles has 0.012 acres of open space per resident, one of the lowest ratios in the state, Hollywood has far less at only 0.005 acres per resident.

"The benefits are incredible for a community that's starved of open green space and children who have never been on a picnic," said Goldman, who's been working on the project since it was proposed. "What better use of our freeways but to cover them with a park?"

The chamber worked behind the scenes to build support among local developers, neighborhood councils, elected officials and, most importantly, the California Department of Transportation. The City Council then approved funding for an economic feasibility study and park backers began meeting with community members to discuss how the space should be designed. Meanwhile, Goldman and others formed a non-profit, Friends of Hollywood Central Park, to coordinate predevelopment planning.

Backers of the park met with Becerra during a chamber trip to Washington in March, and convinced the congressman to request the money, which would pay for reports required under the California Environmental Quality Act, civil engineering and design plans, and land-use and entitlement applications toward the project.

The plan discussed in the feasibility study includes a small, informal amphitheater, a baseball field next to Helen Bernstein High School, a picnic and playground area, sculpture garden and a large, multipurpose plaza at Fountain Avenue and St. Andrews Place.

The feasibility study puts the cost at about $950 million, with government funding covering some of the costs and foundations paying the remainder. The study stated that likely contributors would be the California Endowment, the William and Flora Hewlett Foundation and the California Wellness Foundation. The groups are committed to projects related to air quality and environment health.

One foundation representative said that his organization backs park projects, but it hasn't been involved in anything as big as Hollywood Central Park.

"We have funded projects that improve quality of life and environment, especially in low-income communities, in the past," said Eric Brown, a communications director at the Hewlett Foundation. "It's usually through some kind of organization such as Trust for Public Land, although never at a scale of this size."

Indeed, the eye-popping price tag is the park's biggest hurdle.

"It's expensive," Toebben acknowledged. "And I think that is the major challenge and one of the reasons why the project was part of our agenda in Washington."

Goldman said Friends of Hollywood Central Park has been working to raise funds for an environmental impact report, which the organization hopes will be under way by the beginning of this summer, and a study by Beacon Economics looking at the impact the park would have on the local economy.

“Before you know it, we will have a park and won’t even remember how long it took us to get there,” Goldman said.

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Retailers Retain Upper Hand in Landlord Bankruptcies
在房東可能面臨破產的情況下，零售商占談判的上風
今年購物商場到達谷低前，會持續下滑

*By KARI HAMANAKA (*Reprinted with permission from the California Real Estate Journal)

Though shopping center sales in February saw the largest increase since November 2007, retailers and their shopping center owners still find themselves scratching out survival game plans for this year.

"Over the past year, lots of companies have shed bad locations and renegotiated leases, but the marketplace hasn't changed dramatically," said Matthew Bordwin, managing director and co-group head of real estate services in KPMG Corporate Finance. "Consumer confidence hasn't changed dramatically and unemployment hasn't changed dramatically, so how do we get through the next year?"

The International Council of Shopping Centers reported that shopping center sales in February increased 1 percent from the previous month. The trade organization forecasted annual retail sales to increase 5.7 percent and shopping center sales to increase 4.3 percent this year.

Even so, the bankruptcy filings of General Growth Properties and multiple operating companies under the Opus Group shed light on the situation shopping center owners now are caught in as a result of the economy, lower rents, increased concessions and more dark spaces.

According to Marcus & Millichap Real Estate Investment Services' 2010 National Retail Report, of all the major property sectors, retail faces the biggest challenges, coming off one of the most difficult years on record.

"Although the worst of the crisis has passed, retail property fundamentals will soften further this year before bottoming out," said Bernard J. Haddigan, senior vice president and managing director of Marcus & Millichap's National Retail Group. "Stronger retailers are currently on the offensive to gain market share, taking advantage of space availability in preferred locations at reduced rents."

This activity will be the seed of the next retail growth cycle, according to Haddigan, but that will take two to three years to take shape.

In the meantime, Ricardo Chance, managing director and U.S. head of the Special Situations Advisory Group in KPMG's Irvine office, said there is likely to be a shift in how lenders approach the restructuring of loans moving forward.

"Landlords are getting pressure from tenants on reducing rents that have the ability to service the debt associated with commercial real estate," Chance said. "When you look at the holders of commercial real estate loans, it's everything from local community banks on a single-loan basis to participation on a larger syndicate."

For community banks with loan portfolios containing 50 to 70 percent commercial real estate debt, the situation is ripe with problems.

"The numbers with regard to commercial real estate debt that's coming due this year and next year is staggering," Bordwin said. "The landlords are in trouble and they need to keep their tenants. Unfortunately, keeping tenants at reduced rents is what they have to do."

The "closing of the window" that some people now discuss with respect to lease renegotiations is just not there - at least for Bordwin, who said he continues to see a steady stream of clients coming to him for assistance in renegotiating retail lease terms.

Rosie Rees, a partner in Pircher, Nichols & Meeks' Chicago office, said she too continues to see lease renegotiations, although she said she has noticed an uptick in new leases.

"I'm seeing leases for longer terms," Rees said. "The other day we got a deal from a landlord for a 10-year term. We all said, 'Oh, my.' We were all kind of shocked because we hadn't seen that [term length] in a while."

But, Sheldon Halpern, partner in the Los Angeles office of Pircher, Nichols & Meeks, said reduced rents and concessions depend on the property.

"From what I'm seeing, it's also a location-specific and tenant-specific situation rather than the tide rising just generally," Halpern said. "Good sites, obviously, are in a better position than bad sites. And, certainly, tenants who are the lower-price, higher-volume kinds of tenants are more likely to be expanding than some of the others."

Until there is across-the-board consumer confidence rising and retailers' store sales improve for several consecutive quarters, Bordwin does not expect there to be significant change with retail.

"Because everybody in the commercial real estate world knows that there's this tsunami of commercial real estate debt coming due that can't be refinanced, landlords are in this difficult position," Bordwin said. "Everybody at the end of the day needs to keep getting rent checks, so they have to work with retailers to keep tenants."

Tenants Prepare Today...

While the industry saw several bankruptcies on the retail-tenant side of the equation in 2008 and 2009, bankruptcies on the owner side have been far less common.

For example, U.S. retail commercial mortgage-backed securities delinquencies rose to 5.74 percent in Trepp's latest monthly delinquency report, but that remains below the 6.72 percent delinquency rate for all property types.

If landlords keep cutting rents and continue to see spaces go dark, however, more retail owners will begin to fall behind on the loan payments and may be forced to seek bankruptcy protection. And, in such a situation, what happens to tenants' leases?

"There's probably not as many [shopping center owner bankruptcies] as you would have expected to see, but that's because those loans are being turned over to the special servicers," Bordwin said. "[It's that] amend and extend - keep the situation out of bankruptcy and things are in sort of a purgatory and kind of on hold."

Some say tenants would be wise to monitor their owners closely and follow bankruptcy proceedings should an owner file for bankruptcy. In general, however, bankruptcy law is written in the tenant's favor.

Dean Gloster, a partner in the San Francisco office of Farella Braun + Martel LLP, said in the event of a landlord bankruptcy tenants should ask themselves where their lease is in relation to the lender's deed of trust on the property.

If a lease was signed before the deed of trust, then the lease is fine. If the deed of trust was on the property prior to a tenant entering into tenancy, the lender has more leverage in such a situation.

Although bankrupt landlords have the right to reject a lease, that scenario rarely occurs and most do not anticipate that happening if there are more landlord bankruptcies.

"Usually, the play is for the tenant to go reject leases as opposed to the landlord rejecting leases and because the bankruptcy code protects tenants, the tenant has better leverage in a landlord bankruptcy," Gloster said.

While a tenant would still have the right to stay in its space through the length of the lease term in the case of a landlord's rejection of the lease, the landlord would no longer be obligated to fulfill certain duties. That includes basic property management functions.

"What you really have is a very unusual situation and you just don't see it," said Bruce Speiser, partner in the Los Angeles office of Pircher, Nichols & Meeks. "What you see is tenant bankruptcies. Most of your malls and other large shopping venues are financed such that if a landlord were in default, the lender would be seeking to foreclose on the mall and seek to sell."

In general, the only thing to change in the case of a landlord bankruptcy is the ownership of the buildings. Tenants looking to capitalize on the situation with better lease terms are not likely to find that option on the table.

"In a landlord bankruptcy, you really don't have [lease] renegotiations," Speiser said. "Either the landlord is going to assume the leases as they are, or it's going to reject the leases. The object of the [bankruptcy] filing is not to fool around with tenants of the mall but to address the expense side of the ledger."

Gloster added that there is little financial gain for the landlord in such a situation.

"Unlike the situation where the shoe is on the other foot - a bookstore goes into bankruptcy and says 'Look, we're going to keep some of our locations and we're going to dump some' - typically, the financial weakness [of a landlord] is not something that gives the tenant the big opportunity to renegotiate things. In real estate that's not the way that money flows. The tenant essentially repays later."

...For Bankruptcies Tomorrow?

As Chance mentioned excessive lending is at the root of the problem. What lenders decide to do with troubled properties will determine when or if there are more shopping center owner bankruptcies in the future.

"I think there's still a lot of shadow inventory where you have a loan that is in default, but the bank hasn't decided whether to foreclose or not," Chance said. "They're trying to decide what is the right time to put the property on

the market, or is there a way for the borrower to come back later on and be able to service the debt on current terms?"

In general, many do anticipate more shopping center owners to file for bankruptcy this year.

"I think there an awful lot of us waiting for all these shoes to fall out there," Gloster said. "It's interesting in commercial real estate, generally, not just retail, that an awful lot of properties are worth far less than the amount of debt that's loaned against them today."

Bordwin said he already has seen more bankruptcies with the small shopping center owners that do not have the safety net of a large portfolio or deep pockets.

"The commercial real estate debt that's coming due this year and next year, those are the mortgages on shopping centers and landlords can't make those payments," Bordwin said. "There's going to be bankruptcies and properties are going to be sold off at lower prices. We have in no way seen that shake out."

Bordwin said this year will continue to be a struggle for retail tenants and landlords.

This means tenants will continue to try to renegotiate lease terms and landlords with upcoming debt payments due will find themselves renegotiating to keep spaces from going dark.

"I think everybody is nervous," Gloster said. "Tenants are nervous about their landlords. Landlords are nervous about their tenants. It's a strange world we live in where the lender is worried about the survival of the landlord, and the mall owner is worried that a lender might get taken over by the FDIC."

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After Being First To Head Into the Downturn, Will Hotels Be First to Emerge in the Recovery?
些分析師最近對飯店前景開始看好

By Randyl Drummer (CoStar)

A number of analysts have recently boosted their outlooks on hotels and resorts, with a round of new reports citing evidence of stronger and faster than expected recovery in hotel fundamentals amid signs that economic activity and business travel are accelerating.

Shares of publicly traded lodging real estate investment trusts outperformed all other REIT sectors in the first quarter, increasing 20.7% compared to the cumulative 10% gain for the broader REIT sector through March 31, according to Citigroup Inc.

Jones Lang LaSalle and Ernst & Young also released encouraging reports citing gains in revenue per available room (RevPAR), a possible bottoming of prices, the slowing of new supply and especially, a growing hunger for distressed hotel and resort assets by investors with a pent-up supply of cash.

"The lodging sector appears to be at a classically attractive part of its investment cycle, with cyclically depressed demand levels and low projected supply growth," Citi lodging analyst Joshua Attie wrote in Citi's quarterly portfolio managers update. "The combination of depressed demand and low supply has, in the past, led to periods of strong fundamental performance and relative outperformance for the stocks."

However, despite mounting evidence of improving conditions, many of the hospitality operating companies themselves remained less sanguine -- or at least more cautious -- about their outlooks for recovery in 2010. One source of concern remains the California hotel market, which continues to experience major distress, with a staggering 497% increase in the number of hotels in default and/or foreclosure in the last year, according to a recent survey of distressed hotel properties by Irvine-based Atlas Hospitality Group. The number of defaulted and foreclosed on hotel properties in California rose another 27.4% in first-quarter 2010.

But the analysis by Citi, citing data from Smith Travel Research, showed that average room revenue and midweek (Monday through Thursday) occupancies have turned a corner in recent weeks.

A significant supply of capital, meanwhile, has built up on the sidelines, particularly from foreign investors, after two years of abysmally low sales volume. Several deals for upper-end and luxury properties have traded over the last several months at healthy valuations and Citi's Attie and other analysts expect transaction activity to accelerate in the next three to four months.

"Hotels were first into this cycle and they're going to be the first ones to come out of it because they reset their leases nightly rather than every five to 10 or 15 years [like office, industrial and retail owners]," Guy Langford, leader of Deloitte's distressed asset practice in the U.S., tells CoStar. "There's opportunity in gateway cities and 4-star and 5-star properties will start coming into demand."

Hotel Deal Volume On The Rise

A pair of reports released by Jones Lang LaSalle Hotels in the last week also point to sharply higher transaction volume in the first quarter. U.S. transaction volume rose nearly 70% in first-quarter 2010 from a year ago, said Arthur Adler, managing director and CEO-Americas for Jones Lang LaSalle Hotels.

"Investors are beginning to pursue hotel asset and debt investments more aggressively as it is clear that

fundamentals have bottomed," Adler said. "We expect transaction activity to accelerate throughout the year as more product becomes available. As in years past, we expect that the last three months of the year will show higher transaction activity."

Although much of the interest so far is focused on upper-end properties, a JLL survey showed that investors in mid-priced business-oriented "select service" brands are optimistic in their outlooks for the first time in two years. More than half of the 300 respondents to JLL's most recent U.S. Select Service Hotel Investor Survey expect room rates to improve over the next six months -- a figure that increases to 85% over the next 12 months.

According to the survey responses, more than 60% of investors are aggressively targeting distressed hotel assets as their first choice for investment and many investors feel it's a good time to scoop up properties at a discount.

"Metrics like price per key and discount to replacement cost are compelling motivators for investors today," said Mark Fair, managing director of Jones Lang LaSalle Hotels' select service division.

International investors are showing an increasing interest in high-quality, branded, and well-located hotel assets. Asian capital in particular is expected to become more prevalent as investors seek to acquire prime assets at favorable prices.

"The limited stock of quality assets available for sale is creating a synthetic sellers' market, whereby there is significant equity competing for property, which is resulting in assets trading at low cap rates, albeit at deep discounts to replacement cost," Adler said.

A report released by Ernst & Young's Global Hospitality practice released last week at a conference in Berlin also concludes there's light at the end of the tunnel, with hotels again poised for growth as early as this year.

"There are a number of trends that make up the proverbial silver lining for the industry, such as growth in tourism, advancing restructuring efforts and improving fundamentals," said Tim Behle, senior manager in Ernst & Young's Global Hospitality Advisory practice. "With restructuring efforts by owners and lenders further intensifying, the industry is poised to emerge on a stronger financial and operational footing.

"From a fundamentals perspective, we are nearing the bottom. The shrinking supply pipeline coupled with strengthening demand will bolster the recovery of lodging sector."

Hotels Struggle With Cost-Cutting, Asset Valuation

There are caveats, however. Operating companies will have to keep close watch on critical key trends and issues over the next year, including valuation, financing, government initiatives, tourism, restructuring and other factors, according to Ernst & Young's Global Hospitality Insights.

Michael Fishbin, global leader of Ernst & Young's Hospitality & Leisure practice, said determining the value of a hotel property or portfolio with accuracy remains a challenge in the wake of the global financial turmoil. But with the sector nearing a peak in cap rates, "we expect some recovery in underwriting and a rise in transaction activity this year as investors and sellers come to a consensus around value," he said.

More caveats emerge in the annual reports released by hotel companies over the last month. Companies echoed common strategies they've adopted to survive the steep drop in occupancies and revenue, including cutting employee headcounts and other property level costs; discounting room rates to fill beds, and in some cases, letting go of distressed properties to clean up their balance sheets.

On Tuesday, Washington Real Estate Holdings, a Seattle real estate investment firm, announced it has taken equity control of the five-star St. Regis Monarch Beach golf resort in Southern California in a deal valued at $235 million. The owners of St. Regis, the infamous property in Dana Point where AIG sponsored a luxury retreat after receiving federal bailout money, were in default on a $70 million mezzanine loan from a real estate unit of Citigroup. The 400-room resort faced low occupany ast summer, forcing it to offer deeply discounted room rates to fill empty rooms.

While Host Hotels & Resorts (NYSE: HST), Marriott International (NYSE: MAR) and other REITs have posted gains in recent weeks, they are also seeing a disconnect between rising stock prices and moribund property financial performance. Even as Marriott's shares rise, for example, the Los Angeles Marriott Downtown Hotel -- which had filed for bankruptcy protection last year -- was scooped up by China-based Shenzhen New World Group Co., Ltd. in a deal that closed a few days ago.

"While economic indicators suggest that the economy and the lodging industry have begun a tentative recovery in the wake of the difficult recessionary environment in 2009, we believe that several factors, primarily uncertainty in the strength and sustainability of an economic recovery and persistently high unemployment, will continue to negatively affect lodging industry fundamentals in 2010," Host Hotels & Resorts said in its annual report released last month. "We do not anticipate a significant improvement in the lodging industry until key economic indicators, particularly GDP, business investment, employment, corporate profits and consumer spending, experience sustained quarter-over-quarter growth."

Host Hotels said occupancies would eventually start to improve due to the backlog of demand from long-delayed meetings and travel. However, several factors will mute the recovery in occupancy, the company said. Concerns over business travel budgets will continue to cut into booking activity and chill attendance at group events, resulting in lower banquet, food and beverage and other revenues. The reduction in corporate travel budgets and costs will likewise continue to negatively affect transient business and leisure travel, and continued downward room rate pressure in the lodging industry will also offset gains in occupancy.

The growth in lodging supply for upscale and luxury hotels will begin to abate in 2010 and will be significantly lower in 2011 and 2012 as a result of the significant decline in new hotel construction starts beginning in the second half of 2008, Host Hotels said.

"While we do not believe the anticipated decline in supply growth will have a significant effect on operations for 2010, we believe that it will have a positive effect on our hotels' performance in later years, as any demand growth which occurs will not be coupled with an increase in lodging supply."

Lodgian Inc. noted in its 10-K that it remains focused on "preserving market share, lowering costs and strengthening our balance sheet" to offset shrinking margins and positioning itself for future growth. Lodgian cut costs and employee headcount and surrendered control of two hotels in 2009: the Holiday Inn Phoenix, AZ, turned over to a court-appointed receiver in July 2009; and the Crowne Plaza in Worcester, MA, turned over to a receiver in November.

"We believe lodging demand and revenues will remain weak in 2010, particularly in the first half of the year, although we do not expect to see the magnitude of declines we have experienced during the last five quarters," said Morgan Hotel Group Co. in its annual report. "Recently, the rate of decline in the lodging sector has slowed and we are beginning to see indications of return in demand in key gateway markets, most notably in the form of increasing occupancy in those markets."

"However, while the outlook for the U.S. and global economies have somewhat improved, spending by businesses

and consumers remains cautious, and we do not anticipate that lodging demand will improve significantly until global economic trends show more sustained and robust growth."

Morgan Hotel said if various economic forecasts are accurate, a gradual and modest increase in lodging demand will build for both leisure and business travel -- "although we expect there to be continued pressure on rates, as leisure and business travelers alike continue to focus on cost containment."

Given the current state of the credit markets, some of Morgan Hotel's joint venture projects, such as Mondrian Palm Springs, may not be able to obtain adequate project financing. The JVs or developers may decide to bring in new equity investors, slash the scope of the project or cancel it altogether.

The drop in discretionary income has hurt destination-based hotels in Las Vegas and other gaming meccas.

"The outlook for the gaming, travel, and entertainment industries both domestically and abroad remains highly uncertain," said Hard Rock Hotel Holdings LLC. "Auto traffic into Las Vegas and air travel to McCarran International airport has declined, resulting in lower casino volumes and a reduced demand for hotel rooms."

Latest Residential Loan Rates [Slightly Lower than Last week]
最新住宅地產貸款利率【略低於上週】

	Interest Rate	APR
Conforming and FHA Loans		
• 30-Year Fixed	5.125 %	5.318%
• 30-Year Fixed FHA	5.125%	5.897%
• 15-Year Fixed	4.375%	4.700%
• 5-Year ARM	3.750%	3.601%
• 5-Year ARM FHA	3.750%	3.384%
Larger Loan Amounts in Eligible Areas – Conforming and FHA		
• 30-Year Fixed	5.250%	5.390%
• 30-Year Fixed FHA	5.250%	5.971%
• 5-Year ARM	4.125%	3.688%
Jumbo Loans – Amounts that exceed conforming loan limits		
• 30-Year Fixed	5.500%	5.643%
• 5-Year ARM	4.875%	3.965%