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Cash May Be King, But How Will It Rule?

不動產投資信託基金目前擁有大量流動資金，但不樂觀的市場基本因素可能導致投資者持續保守的策略

By Mark Heschmeyer (CoStar)

The often-mentioned build up of un-deployed equity is perhaps no more apparent than with real estate investment trusts (REITs). Industry-wide, REITs now have enough cash or equivalents on average to carry them through the next two years. This is notably different from last year, when REITs were playing defense in protecting their liquidity positions.

The question though, is: what does that mean for REITs or even for an economic recovery? The answers appear to be mixed.

The liquidity positions of U.S. equity REITs are experiencing an equilibrium shift, according to Fitch Ratings in a new special report: U.S. Equity REIT Liquidity Update: Repositioning for the Future.

"Most REITs now have more ample liquidity coverage through 2012 and beyond," said Steven Marks, a managing director at Fitch. "REITs with liquidity break-even ratios in 2014 or beyond will be the strongest in the sector."

Another sign that liquidity has improved is that REITs are drawing less from their unsecured revolving credit facilities. Draw rates declined to 19.8% as of Dec. 31, 2009, from a peak of 37.5% just nine months earlier.

"As they reposition for the future, certain REITs may choose to increase credit risk through offensive measures," Marks said. "Measures may include development expansion or higher risk acquisitions."

While this means some REITs will likely increase their acquisition activity in the near term, it likely does not mean that every REIT will be more aggressive in making new investments. Reducing credit risk through additional defensive measures such as reductions in outstanding debt remains a viable option, according to Mark Fitzgerald, senior debt analyst for Property and Portfolio Research (PPR), a CoStar Group company.

"There are still headwinds in their recovery," Fitzgerald said of REITs. "For one, interest expense as a percent of EBITDA (earnings before interest, taxes, depreciation and amortization) is at an all-time high."

Interest expense as a percent of earnings at the end of 2009 was about 46%, up from less than 35% in the middle of 2007 where it had hovered for the previous six years.

"The increase in this ratio over the past two years is primarily a denominator problem," Fitzgerald said. "REITs reduced their overall debt outstanding by almost 6% in 2009, much of it floating-rate debt, and their cost of debt is extremely low. Earnings, on the other hand, are well off 2007 and early-2008 levels."

In addition, Fitzgerald noted, earnings will continue to face downward pressure, because fundamentals may continue to deteriorate and cause net operating incomes to fall. REITs saw annual same-store NOI declines for the first time in the third quarter of 2009. PPR's current base case has national NOI declines, across the four major property types, occurring through the end of 2011 (2012 for office).

"In addition to possible damage from continuing deteriorating fundamentals, REITs -- and everyone else -- are exposed to potential increases in interest rates," Fitzgerald said. "Their primary exposure comes from two sources. First, the average interest rate on public REITs' floating-rate debt is 2.5%. Floating-rate debt makes up 18% of REIT debt outstanding, but some REITs have floating-rate exposure well in excess 18%. Second, REITs have almost 50% of their outstanding debt maturing through 2013, which potentially places upward pressure on their fixed-rate debt needing to be refinanced."

The upshot: as an industry - but not individually - REITs may be forced to use cash to pay down debt over the next two years.

John Affleck, international economist for PPR, provided some numbers identifying what REITs have done to this point and it shows an industry trying to do both.

REIT equity raising added $25 billion in cash to the industry in 2009 and 2010. And that's been used to retire $12 billion in debt. In addition, REITs raised another $16 billion in new debt, much of which was used to refinance existing loans. After those efforts, equity REITs were sitting on some $10 billion in cash at the end of 2009.

"If we assume 50% loan-to-value for new acquisitions, that means that REITs are in the market for about $20 billion in new acquisitions," Affleck noted in a client conference call last month.

"Simon Property Group alone held $4 billion in cash at the end of 2009. And regional mall REITs have raised $5 billion in new equity and $5 billion in new debt," Affleck said. "Shopping center REITs have added a billion in debt and about $3 billion in equity. And more than any other sector, REITs dominate retail. And Simon's aggressive - although so far unsuccessful - pursuit of GGP shows that they view the current market as an opportunity."

"Office REITs have also been aggressive in raising about $3 billion in equity and $1.5 billion in new debt. Boston Properties is sitting on about a billion and a half in cash at the end of 2009," Affleck said. "Apartment REITs have trailed in the equity-raising business, just $646 million in equity and about half a billion in debt."

CoStar Group transaction records show 38 deals so far this year where REITs were buyers, totaling $3.3 billion. Of that, office deals accounted for about a third - $1.1 billion, which included a $670 million deal for the stake in the University Park at MIT complex just across the river from Boston in Cambridge. Total retail deals were about half a billion, including Inland's $400 million deal for the DDR portfolio of 16 shopping centers.

Outlook Foresees Increasing Amount of Distressed CRE Debt Investing
商業地產的問題貸款投資預期會增加

By Mark Heschmeyer (CoStar)

While much of the commercial real estate investment focus over the past several months seems to have been geared towards debt, according to a new report from Ernst & Young, even the market for distressed mortgages has been dormant -- but it may now be coming to life.

Only $54.5 billion in commercial mortgage-related transactions were posted last year, compared with $181.6 billion in 2008 and $557.8 billion in 2007, according to E&Y.

"While many on the investor side continue to hope for an active market with an abundance of opportunities akin to the heyday years of the Resolution Trust Corp. (RTC), it's not there yet - but there is hope," E&Y reported in: Is History Repeating Itself? U.S. Distressed Real Estate Loans Investor Survey.

To gauge investors' sentiment through 2010 and beyond, E&Y surveyed market participants in November and December 2009 on their perception of the market.

According to the report authors Mark Grinis, leader of Ernst & Young's Real Estate Distress Services Group, and Christopher Seyfarth, banks and other lenders weren't selling last year and neither were special servicers; and many investors weren't buying either. However, the dynamics suggests that activity has the potential to pick up in 2010 and 2011.

Today, the Federal Deposit Insurance Corp. (FDIC) is the most active seller of distressed real estate loans and for good reason. More than 180 federally insured financial institutions have been closed in the last two years, leaving the FDIC with $30 billion of loans that it must sell, according to E&Y. Many argue that this is just the tip of the iceberg, too.

There is $1.4 trillion in maturing commercial real estate mortgages coming due over the next four years, and as many as half of them could be "under water." This suggests that institutions could face increasing pressure to sell nonperforming mortgage loans.

Pricing also continues to be a big barrier to increased transactions, but the gap may be closing. The modest growth in the number of recent transactions suggests that more buyers and sellers are able to agree on price, E&Y noted.

According to E&Y's latest survey, more than half of the investors reported that they had purchased or attempted to purchase non-performing loan (NPL) portfolios in the U.S in the last 12 months, A significant number of investors said they had bid on or priced loans, or performed due diligence on loan portfolios, but had never gotten to the point of completing the transaction. In fact, only 17.5% indicated they had completed a transaction.

Of the investors who had purchased distressed loans, most had done so through negotiated transactions or through an auction process that involved advisors.

Other investors said they had not sought to acquire NPL portfolios because it was too early in the market cycle.

E&Y's survey, though, also indicated that investor activity is picking up. Nearly half of the investors in the December survey said they were more active in the market than in mid-2009, and most of the rest said they were at least as active since they were bidding on pricing NPL loan portfolios, performing due diligence or completing.

Looking ahead, more than half of the investors surveyed expect conditions to be favorable for entering the market in the second half of 2010 or in 2011. By then, investors should have a clearer picture as to whether the economy is continuing to recover this year and whether commercial real estate markets might be bottoming out after a long, steep decline.

Multi-Housing Transactions Poised to Accelerate
公寓買賣有望增加

*By Malcolm McComb (*CBRE Capital Markets Newsletter)

Today's commercial real estate transaction market reminds me of the 1982 ACC championship college basketball game. The North Carolina Tar Heels held on to a second half lead by implementing a four corners offense that essentially stalled scoring for the last 12 minutes of the game. The next year the ACC added a shot clock and three-point line, and scoring took off with a more exciting style of play. Likewise, changes in market dynamics in 2010 are poised to accelerate what has been a slow pace of multi-housing transaction volume to end 2009. The New Year promises to be a better one for the multi-housing sector.

Most industry participants expected distressed owners and their lenders to sell massive amounts of properties by now, given the unprecedented scale of funding problems spurred by the credit crisis and recession. Yet, the majority of distressed owners and lenders have frozen the action like the 1982 Tar Heels. Work-outs and loan extensions have commonly been the solution sought by those holding distressed assets. With values 30%-40% off 2006/2007 peak levels, few can rationalize taking losses rather than holding out for a better day.

Ironically, buy-side motivation is the force that will unlock transaction volume in 2010. The amount of capital forming on the sidelines is powerful. $34 billion of new institutional capital is allocated for commercial real estate investments. Another $136 billion of institutional capital remains committed but unspent.2 Private investors, public and private REITs, and, increasingly, foreign capital join the institutional investors in amassing plenty of money for investments they believe make sense.

Low-cost financing and a favorable outlook for fundamentals make multi-housing stand out as the most attractive commercial real estate sector for investment.

In their analysis of United States metro markets, CBRE Econometric Advisors, a commercial real estate forecasting group, projects that multi-housing will have positive rent growth for the next five years in 59 of 60 markets monitored. The reasons for the optimism in multi-housing demand include:

- A psychological shift in preferences for renting vs. buying
- An increase in renting due to foreclosure and home loss
- Population surge from the echo boomers
  (Children of baby boomers)
- Pent up demand from young adults who have been doubling up or living with parents

While demand is expected to increase significantly, supply should remain more fixed. New construction of apartments to meet demand should be minimal in the next few years. If these underlying factors hold true, then as demand increases and supply remains static, rent gains over the next five years could be punctuated by spikes of 5-10 percent in a single year.

Owners and lenders looking for values to improve through better operating performance have found an unexpected ally—cap rate compression. In fact, cap rates are down 150-200bps since spring 2009.3 Sought after markets like Washington, D.C. and Southern California are commanding cap rates in the mid-to-low 5% range and below 5% for the best-located and most desirable properties. Class-A properties in Phoenix have been selling in the mid-5% cap range. Raleigh and Atlanta are in the 6%+/- range for infill, class-A communities. Still, well-capitalized buyers sold on future multi-housing fundamentals bemoan the lack of "quality" deals available to purchase.

The abrupt drop in required going-in yields has many owners and lenders re-assessing their plans to put off selling. They know that quality assets for sale command a premium today because buyers have few such deals from which to choose. Simple hold/sell analysis reveals the risks of not realizing values at current yields if rates rise and an

owner is pressured to dispose of an asset or refinance it in the next 12-36 months. For example, an owner able to sell a property now at a 6.0% cap rate would have to increase NOI 8.3% if the cap rate increases to 6.5%. Should the market move from a 6.0% to a 7.0% required cap rate, an owner would have would have to increase NOI nearly 17% to achieve the price justified by a 6.0% cap rate on current NOI.

Waiting to sell will look like the best option if cap rates stay low and fundamentals recover. On the other hand, owners and lenders needing capital infusions in the next few years may regret missing the chance to sell on low yields if cap rates rise in the near-term without adequate NOI growth. Tracking the number of broker opinions of value (BOVs) that owners and lenders request from commercial real estate companies is an excellent indicator of future transaction volume. Based on a surge in BOV requests across the industry, the 2nd half of 2010 should mark the multi-housing sector’s equivalent of adding a shot clock and three-point line.

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Hotel REITs: Hot Investment Or One To Run From?
今年第一季度，飯店不動產投資信託基金的投資回報率高達 **25%**，但專家認為此次反彈並不成熟，真正的回升仍要等到至少一年以後

By Janet Morrissey (TIME)

Lodging real estate investment trusts have been on a tear, generating total returns, including dividends, of about 25% so far this year. But the group's high-speed run may soon hit a road bump — or even a blowout — as money managers increasingly believe the rally is premature and that a significant rebound in the hotel business is still more than a year away.

"I think people are trading on not only what the sector is going to do this year and next, but what it's going to do over the next four or five years," says John Arabia, a managing director at Green Street Advisors of Newport Beach, Calif. Valuations appear to be "at the high end of a fair range," he says. David Loeb, a senior analyst at Robert W. Baird & Co., expects little earnings growth until 2012 and believes the wait will "test the patience" of investors who have already bid up the shares. "I do think [the rally] is largely ahead of itself," he says.

Lodging REITs generated total returns of 67.2% in 2009, and gained another 25.5% so far in 2010 (as of Friday's market close), outpacing the Standard & Poor's 500 index, which rose 26.5% in 2009, and has advanced only 7.5% so far this year. They also outperformed equity REITs in general, which rose 28% in 2009 and are up another 11.2% so far in 2010.

Many investors jumped into lodging REITs, hoping to cash in on stocks that stand to see the biggest and earliest gains from an economic recovery. Since hotels change their rates nightly, they can respond quickly to changes in the economy and have historically rebounded faster. "Investors want to buy low and get in early," says Bjorn Hanson, a professor of hospitality and tourism management at New York University.

But Loeb believes the rally may be premature at best and overdone at worst. "I just think there could easily be a selloff of 10% to 15% or more than that" before the sector rebounds, says Loeb. For those who do buy now, he says, they better be prepared to hang onto the stock for at least three years. "They look really expensive to me," says Loeb. "Investors will just have to wait for several years before those multiples make sense."

The lodging sector has taken a beating in the recession, with revenue-per-available room, or revpar, falling year-over-year for 19 consecutive quarters. (Revpar is a key industry metric used to measure room rate and occupancy growth). However, investors started moving into the sector when they noticed that year-over-year declines had been steadily getting smaller each month since August: Revpar fell 19.1% in August, but the declines kept getting smaller each month and finally turned slightly positive in March, according to Smith Travel Research. That change prompted investors to become more optimistic that the sector's fortunes had turned. "We certainly think it has stabilized," says Brad Garner, a vice president at Smith Travel Research.

However, all of the gains came from occupancy improvement, not room rate increases. Hotels rely on healthy room rate increases to drive earnings — and significant rate hikes likely won't happen before the second half of 2012 at the earliest, analysts say. "When you put more bodies in hotels and are charging them less, costs are going to be rising, not falling," says Loeb. "So the profit trough may still be close to a year away."

Smith Travel's Garner is predicting revpar, which declined 17% over all of 2009, will be down only 0.5% in 2010 and will rise 5.4% in 2011. But Garner cautions the sector still faces considerable headwinds from high unemployment, weak consumer confidence, credit issues and other factors. "There is a lot of pessimism around the consumer in general," says Garner. "There's a lot more headwinds this time around that there has been in prior [downturns]."

Arabia is more bullish, calling for 2% revpar growth in 2010, 5% in 2011 and 9% in 2012. However, he believes it will be at least 2013 before revpar regains its peak 2007-2008 levels.

After all, it has a long fall to climb back from. Revpar at U.S. hotels plunged a whopping 44% from their peak of $73.72 in July 2008 to their trough of $41.26 in December 2009, according to STR. Occupancy fell to 43.9% in December from its 68.9% peak in July 2008, while average daily room rates slipped to $93.81 in November from their peak of $108.72 in April 2008.

Lodging companies that focus on luxury were hit the hardest, with rates falling 20% to 25% on average, according to STR. "No CEO wanted to be seen going into NYC and staying at a luxury hotel, so they suffered," says Garner. However, the segment that was pummeled the hardest is the same one that offers the biggest potential windfall as the economy rebounds. "If you fall less, you have less to recover, but if you fall hard, you have more to recover," he says.

Of course, that assumes that travelers step up to full-priced luxury lodgings, and that may be a ways off.

After the bust, prime parcels at cut-rate prices
由於地產市場的下滑，一些洛杉磯備受矚目的空地被賤賣

By Roger Vincent (Los Angeles Times)

Scattered around town are some surprisingly valuable vacant lots disguised by weeds or broken blacktop or the remains of an unwanted building -- and many have quietly come to market, thanks to the real estate collapse.

Billions of dollars were lost by developers who bought land to build high-profile projects but weren't able to get their plans off the ground, even after spending lavishly on architectural designs and other measures to get their buildings approved by local officials. As the real estate cycle plays out, the pained exit of ambitious builders has created an unusual abundance of opportunities to buy expensive eyesores.

"There are a mess of these around town," real estate appraiser Steven Norris said. "Dirty corners entitled for high-rises and they're just parking cars on them."

A common theme in the failed ventures is that the developers bought their sites at astronomical prices near the top of the market, paying so much that they had to plan buildings they could sell or rent at the highest prices the market has ever borne if they hoped to reap a profit.

In the commercial real estate boom of the late 1980s and early '90s, developers thought office buildings were the way to go. This time, the consensus was that the most money could be made by creating lavish high-design apartments or condominiums that would appeal to the ultra-rich.

These units were intended for buyers so wealthy that their main challenge wasn't coming up with millions of dollars to spend but rather to find a dwelling that suited their refined tastes, developers said. It turned out that the target market of international jet-setters, movie stars and corporate barons wasn't as deep as many had hoped.

So the fact that many of these parcels come with hard-won government approvals for platinum-level developments doesn't necessarily add to their value, said Norris of Norris Realty Advisors.

He estimates that such commercial properties are worth about 40% to 60% of what they were at their peak in late 2007 and early 2008. But with today's tight credit market and tougher lending standards, few deals are being done.

"The fact is," Norris said, "so far nobody has displayed the wherewithal to acquire these."

Historic downtown site

One of the most ambitious projects proposed during the last real estate boom was a $1-billion high-rise condominium complex intended to tower over downtown Los Angeles.

At 76 stories, the taller of two planned towers would dramatically alter the skyline and rival the US Bank skyscraper, the tallest building in the West. The project, named Park Fifth, also calls for a 14-story five-star hotel overlooking Pershing Square Park, fronting on 5th Street.

But with downtown's condo market overbuilt and the hotel industry in the dumps, there is little need for the project.

Developer David Houk hasn't given up on building Park Fifth, but one of his financial partners had less patience and put the site on the market last year. Africa Israel Investments Ltd., a publicly traded development company based in Israel, tried to find a buyer for the 100,000-square-foot property but didn't receive an acceptable offer, real estate brokers said. The company didn't respond to requests for information about its current plans for the property.

Houk has demonstrated almost supernatural persistence for a developer, having started acquiring the land at the northeast corner of 5th and Olive streets in the 1970s. The site cater-corner to the historic Biltmore Hotel is used for parking now but was one of the most important locations in the city for nearly 100 years. The largest auditorium in Los Angeles, Hazard's Pavilion, was built there in the 1880s. The wood-frame structure hosted operas, balls, political meetings and sporting events.

In 1906, it was demolished to make way for a new auditorium with an art-nouveau interior that took over as the city's main entertainment venue. From 1920 to 1964, it was the home of the Los Angeles Philharmonic Orchestra. The Philharmonic Auditorium Building was demolished in 1985 to make way for an office development that never panned out.

Sour Candy in Beverly Hills

It just doesn't get any better than this if you're a real estate developer: eight acres in Beverly Hills at the junction of Wilshire and Santa Monica boulevards.

The 9900 Wilshire Blvd. site next to the Beverly Hilton Hotel was once home to one of the best stores in the Robinson's department store chain. After more than half a century in business, the store ceased operations as a Robinson's-May in 2006, paving the way for redevelopment.

Property owner New Pacific Realty Corp. proposed a spectacular $500-million condo and retail development designed by celebrity architect Richard Meier, who also designed the Getty Center.

It was to be environmentally friendly and produce no more car trips than the department store did, but many nearby residents still objected to growing density in the neighborhood.

Real estate industry observers were caught by surprise in 2007 when high-flying Brits Nick and Christian Candy swooped in and paid $500 million to buy the property. Candy & Candy catered to the super-wealthy jet-set and vowed that 9900 Wilshire would become one of the world's most elite addresses.

The decision by New Pacific -- which paid $33.5 million for the site only a few years earlier -- to sell the undeveloped site to the Candy brothers, soon looked prescient. The real estate crash and other issues, including the failure of their Icelandic banker, brought down the Candys' dreams in Beverly Hills. In February, a bank controlled by Mexican billionaire Carlos Slim foreclosed on the property.

Banco Inbursa has yet to officially market the property, real estate brokers said, but investor interest is expected to be strong. The price is unlikely to approach the assessed value of $520 million given it by the city last year.

Ready and waiting in WeHo

One of the largest undeveloped parcels on the Westside is a crescent-shaped lot on San Vicente Boulevard in West Hollywood near Cedars-Sinai Medical Center.

During the last housing boom, developers planned a luxurious condominium called Greenwich Place intended to appeal to doctors, entertainment professionals and other wealthy individuals.

The design called for 116 condos plus 35 rental units for low-income seniors on a site that is also close to the Beverly Center mall and Pacific Design Center.

The current owners paid $57 million for the land at San Vicente and Sherbourne Drive north of Beverly Boulevard in a neighborhood the locals call Sherbourne Triangle. The three-acre parcel has been assembled over a period of decades, first by Cedars-Sinai, which wanted to put a major medical building on the site.

Nearby residents objected to the expansion of the medical center, and West Hollywood officials were reluctant to approve a tax-exempt use for the site. A potential buyer couldn't get approval to build a hotel there. Cedars sold the property in 2004 to Regent Properties, a residential developer.

Among the land cleared to make way for development was the home of Tail O' the Pup, the tiny hot dog-shaped food stand familiar to generations of Angelenos.

Regent sold to developer Turnberry Ltd. at the top of the market in late 2007. Now the market has cooled, and Turnberry is unlikely to recoup its $57 million, even though the hard work of getting city approval for the residential development was completed by Regent.

"It's a fully entitled project in the city of West Hollywood," said real estate broker Joseph Grabiec of the Harris Group. "It's difficult to get through the process there."

A Westside 'jewel' beckons

One of the most sought-after development sites in the country is on a short stretch of Santa Monica Boulevard between Beverly Hills and Century City across from the Los Angeles Country Club.

New York developer Donald Trump was among the competitors in a hot bidding war during a bankruptcy auction of the 2.4-acre lot at 10000 Santa Monica Blvd. in 2006. Irvine home builder SunCal Cos. won the parcel with a bid of $110.2 million in the 52nd round of the auction when Trump and his partners finally threw in the towel.

"This piece of property is the jewel of California," SunCal's chief operating officer, Frank Faye, said at the time.

SunCal hired one of the world's star architects, Frenchman Jean Nouvel, to come up with a cutting-edge design for the site. He proposed a wisp-thin 45-story tower of ultra-luxury condominiums with plants and private gardens growing on every level. The total expected cost of the tower Nouvel called "the green blade" was $400 million. But in 2008, amid the drop in demand for new homes and the collapse of its banker, Lehman Bros. Holdings Inc., SunCal filed for bankruptcy protection on the project.

Now it's for sale again. Real estate broker Jeff Adkison of Jones Lang LaSalle declined to speak about the potential price, but he expects there will be strong interest from developers and large investment funds based overseas.

Among the possibilities, according to its allotted "trip count" of automobile traffic, are either 283 residences or 214 hotel rooms. Offices or a retail center would also be allowed, but a high-rise such as the one Nouvel proposed could command views of the ocean, Hollywood Hills and downtown Los Angeles.

"It's an irreplaceable piece of land," Adkison said.

Ocean breezes for a song

One well-known property on the block for a fraction of its last sale price is the Campus at Playa Vista.

The 56-acre site near Marina Del Rey is one of the most desirable parcels in the country for developers because it's near the ocean and comes with approval for the construction of more than 500,000 square feet of office and retail buildings.

The parcel, where DreamWorks SKG once planned to build a major film studio, also includes the enormous hangar where aviator and business mogul Howard Hughes built his infamous Spruce Goose airplane in the 1940s. The hangar is now frequently used as sound stages for making movies and television shows.

New York developer Tishman Speyer and financial partner Walton Street Capital paid $200 million for the campus 2 1/2 years ago during the real estate boom and built four office buildings before defaulting on a $155-million loan last summer.

The court-appointed receiver managing the property, Taylor Grant, said in January that he hoped to get more than $100 million for it.

More than a dozen offers have been received, said Grant's real state broker, Kevin Shannon of CB Richard Ellis. "We are trying to see what the best price and terms will be."

Earlier this month the Los Angeles City Council approved the final phase of the Playa Vista development. Phase 2, known as the Village, will add 2,800 homes, a shopping center, office buildings and parks to the community that already includes more than 3,000 residential units and eight office buildings.

The addition of the long-awaited retail component is expected to add value to the rest of Playa Vista, real estate experts said.

Golden opportunity on Wilshire

A block and a half east of Beverly Hills' Golden Triangle is a block-size vacant lot smack on Wilshire (9200, to be exact).

The one-acre parcel between Maple and Palm drives was supposed to hold a six-story residential and retail complex by now, but instead it's for sale. Pasadena developer HDS Group paid $54 million for the land when the market was hot. The parcel was reassessed at $52 million in 2008 as the market began to tumble, and HDS never got the project moving.

The property should sell at a substantial discount from its assessed price, brokers say, but its prime location is expected to bring out deep-pocketed buyers.

"We just started marketing it," said broker Shannon, "but we anticipate a good reception. It's a rare opportunity in any real estate cycle to get a block in Beverly Hills."

The site is a bit of an oddity. Even though it's a prime location close to the headquarters of the Academy of Motion Picture Arts and Sciences, the land has been empty for many years. In 1987, Columbia Savings & Loan tied up the property in a 99-year lease as part of a plan to erect buildings on four Wilshire Boulevard sites in Beverly Hills.

Columbia's real estate division built two fancy office buildings on Wilshire, including its opulent onetime headquarters, but went out of business in 1991 without developing 9200 Wilshire.

HDS Group got city approval to build 44 condos above ground-floor retail and four levels of underground parking. The design called for a rooftop pool with cabanas and a clubhouse. New owners will probably tweak the plans to suit their tastes and the current market, Shannon said.

"Different buyers have different ideas of what the highest and best use is," he said.

Vacancy Rates Have Plateaued and Lease Transactions Are Picking Up, but Declining Rents and Operating Income Continue to Challenge Office Landlords
辦公樓的空屋率已持平，租約也慢慢回升，但租金和營業利潤的下滑仍然影響辦公樓業主

By Randyl Drummer (CoStar)

More companies that occupy office space began hiring again during the first quarter and tenants are beginning to renew leases and make other occupancy decisions postponed during the past two-and-a-half years of economic dislocation. The increase in transaction activity resulted in plateauing office vacancy rates across many U.S. office markets during the past quarter.

However, the increase in leasing activity is still well below peak levels and the vacant space in buildings is expected to fill gradually, with net absorption remaining fairly flat in coming quarters. Office rents are expected to finally begin rising in most U.S. markets by the middle of next year, but many landlords won't see significant growth in property net operating income for several years.

Still, first-quarter numbers compiled by CoStar Group show promising signs amid the lingering pain for the commercial real estate industry, including projections of more than 100 million square feet of leasing during the first three months, which would rank as one of the strongest leasing quarters of the last several years.

"We appear to be at an inflection point," Andrew C. Florance, founder and CEO of CoStar Group Inc., said recently during the company's First Quarter 2010 Office Review and Outlook webinar. "We're seeing a lot of signs of recovery."

Economy.com and U.S. Bureau of Labor Statistics data suggests that the U.S. will see significant employment gains over the next three years, including jobs in the office sector, added Dr. Norm Miller, vice president of analytics for CoStar, who presented the overview of market conditions, along with Florance and Jay Spivey, senior director of analytics.

"Professional business service jobs continue, over the last two quarters, to be positive. When you net out the financial jobs that were lost and the information services jobs that were lost, we still have a net positive of 78,000 [office] jobs," Miller said.

Miller cited forecasts that the nation would add a net total of 230,000 office jobs this year, resulting in the take-up of an additional 46 million square feet of space.

Miller acknowledged that there's a lot of slack in the market and not all of the space taken would translate right away to positive absorption. But it will start to chip away at the shadow space plaguing office landlords and tenants, empty space in buildings that companies haven't yet put back onto the market for direct or sub-lease.

"If the economy continues to move in the direction it's moving, we're coming out of the woods here on the leasing marketplace, and it's fairly good news," Florance said. "Any new absorption we see will cause vacancies to go down."

First-quarter 2009 was the worst three-month period for leasing in a decade as tenants, realizing that demand was shrinking and rents were headed downward, delayed decisions to sign or renew leases.

However, "we have now seen four solid, sequential quarters of increase in total leasing activity in the United States," Florance said. "People are out there taking advantage of what they think are good deals, or they've delayed as long as they can."

By the time all the leases are tabulated and accounted for, "given what we're seeing currently for leasing activity in the quarter, we're anticipating and are confident that we're going to see one of the best quarters for leasing activity that we've seen in five years," he added.

Underscoring the boost in leasing activity is 20% year-over-year growth in CoStar Group, Inc.'s office, industrial and retail property listings in 2009 from the previous year, a jump Florance described as "remarkable." The Washington, D.C.-based company added 750,000 office, industrial and retail listings and removed 500,000 listings -- the majority of whom signed leases -- for a net increase of nearly 250,000 listings in 2009.

The stepped-up leasing activity and improving office employment numbers have yet to translate to overall gains in net absorption of office space. About half of the top 20 markets tracked by CoStar posted positive absorption while half continued to show a net loss of occupied space in the first quarter.

Major markets racking up significant positive absorption included Houston, continuing to benefit from the surging energy market; the San Francisco Bay Area, South Florida, Denver, Phoenix and Minneapolis. Northern New Jersey, Washington, D.C., Long Island and Boston also showed modest positive absorption.

Markets showing the highest negative absorption included New York City, Los Angeles; Westchester/South Connecticut; Chicago and Orange County, CA.

While an improvement from 2009, when three out of four quarters showed negative absorption, CoStar is expecting flat absorption for the next few quarters as companies gradually work their empty space out of the system.

CoStar and its research and analytics subsidiary, Property and Portfolio Research, Inc. (PPR) are forecasting that the national office vacancy rate has peaked and will begin to fall to what is considered a healthy 10% by end of 2013 and into 2014. While 30-basis-point vacancy increases have been the norm in recent quarters, they've slowed to 10 bps, with the national office vacancy rate ending the first quarter at 13.54%. Availability, space offered but not yet actually vacant, is significantly higher at 17.7% and rising slightly faster, but it's leveling off as well.

New York City had the lowest vacancy rate among major markets at 7.9% -- high compared to the 2% vacancies a few years ago at the height of the era of hot financial services markets, which prompted rent spikes in Manhattan -- but in line with the 20-year NYC average.

Houston had a significant 0.5% decrease in vacancy and San Francisco Bay Area fell 0.4% in the first quarter vs. the fourth quarter, while demand for office space in Atlanta and Phoenix continued to erode, adding 0.6% and 0.4% to their vacancies rates. Phoenix's rate was the highest in the nation at 21.4%, followed by Detroit (18.7%), the fast-delivering Dallas-Fort Worth market (17.9%), Atlanta (17.4%) and Orange County (16.2%).

Rents will continue to pose a challenge for office landlords in coming quarters. Nominal rents adjusted for inflation have fallen every quarter since early 2008 and are now down 20% from a decade ago, from over $24 per square foot to below $19, sharply cutting into property net operating income.

As office vacancy rates fall and occupancy levels climb, rents will gradually begin to rise in a couple of markets and will be flat in many others. While rents in a number of metros are still falling, CoStar forecasts that overall U.S. office rents will be in growth mode by the middle of next year.

However, growth in average net operating income won't automatically follow. As leases signed in 2007 at record high lease rates come up for renewal, actual NOI will continue to contract until late 2014, with no significant growth in property income until 2015.

That said, if employment and economic growth matches up with analysts' expectations, investors will begin anticipating that NOI growth within a year or two.

"If we see three or four quarters of significant employment [growth] in the finance, insurance, real estate space, you can begin to anticipate significant value growth. That's an if," Florance cautioned.

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

(Wells Fargo: Home Mortgage)

	Interest Rate	APR
Conforming and FHA Loans		
• 30-Year Fixed	5.000 %	5.191%
• 30-Year Fixed FHA	5.125%	5.897%
• 15-Year Fixed	4.250%	4.573%
• 5-Year ARM	3.750%	3.519%
• 5-Year ARM FHA	3.500%	3.343%
Larger Loan Amounts in Eligible Areas – Conforming and FHA		
• 30-Year Fixed	5.125%	5.264%
• 30-Year Fixed FHA	5.125%	5.840%
• 5-Year ARM	4.000%	3.561%
Jumbo Loans – Amounts that exceed conforming loan limits		
• 30-Year Fixed	5.500%	5.643%
• 5-Year ARM	5.125%	3.977%