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DLA Piper Survey: Bulls Gaining Ground In Improving CRE Market
越來越多的商業地產行政人員認為市場今年會觸底，不過回升的時間

By Randyl Drummer (CoStar)

What a difference 18 months can make. Pessimism ran alarmingly deep when Sam Zell and other commercial real estate luminaries last gathered for law firm DLA Piper's Global Real Estate Summit in Chicago.

The government had placed Freddie Mac and Fannie Mae into conservatorship just a few days earlier in response to the ailing subprime mortgage market. Other events in September 2008 signaling a full-blown financial crisis included the Federal Reserve's emergency $80 billion loan to American International Group (AIG), Bank of America's swallowing of Merrill Lynch, and the bankruptcy filing by Lehman Bros. The Dow Jones Industrials fell nearly 1,000 points in three days.

At that time, 90% of CRE executives surveyed for DLA Piper's "State of the Market" survey described themselves as bearish, and nearly 85% of believed it would be 2010 or 2011 before real estate markets stabilized. While 60% of executives still regarded themselves as "bearish" in the latest survey unveiled during this week's Global Real Estate Summit, spirits and optimism was decidedly upbeat among executives and panelists at the Four Seasons Hotel in Chicago compared to the dour moods at the conference in the Windy City 18 months ago.

The number of respondents describing themselves as bullish on the market quadrupled from 10% in fall 2008 to 40% in the recent survey of 308 senior-level executives. Echoing similar surveys and sentiment reported recently by CoStar Group, 60% also believe the market has already reached bottom or will hit bottom this year.

However, other survey results are a reminder that recovery likely won't come quickly or easily this time around, despite brightening moods in the C-suite. For example, six in 10 execs don't believe the commercial mortgage-backed securities (CMBS) market will return in time to help refinance more than $150 billion in CMBS loans maturing over the next two years. More than 60% also predict that workouts between lenders and borrowers on troubled assets won't yield deep discounts, with the largest loan write offs ranging between 11 and 30%.

Jay Epstien, chair of DLA Piper's U.S. Real Estate Practice, was surprised that such a large percentage of respondents believe the market has hit bottom.

"With the overhang of all the CMBS that will come due in 2011 and 2012 with no obvious solution in site, I thought more respondents would think of '11 or '12 as the bottom," Epstien said.

Moreover, the question remains whether executives are truly bullish -- or just relieved to be through what Michael Fascitelli, president/CEO of Vornado Realty Trust, described at the conference as the "whopping recession."

"It's hard to know whether it's because they're feeling much, much better because we're back from the brink, or because they're actually looking forward to doing deals and markets have turned up," Epstien said of the 40% of respondents who described themselves as bullish.

The two keynote speakers at the Global Real Estate Summit - Zell, chairman of Equity Group Investments LLC; and Fascitelli, president/CEO of Vornado -- agreed during their presentation, "Where Have We Been and Where Are We Going?" that the real estate downturn wasn't driven or fueled by an over-abundance of new space as in past down cycles. Echoing CoStar analysts, Zell and Fascitelli said the same dearth of new supply, combined with employment growth, will help push CRE markets forward as rents and occupancies strengthen across the board over the next 18 months.

Fascitelli forecast strong real estate market growth from 2012 to at least 2015.

Zell said commercial property and housing in and near central business districts will do well -- however, suburban office buildings, lifestyle centers and enclosed retail that was "not justified" in being built will continue to face challenges.

Meanwhile, survey respondents said workouts and loan extensions would continue to be the favored way of dealing with the overhang of mortgage maturities in need of refinancing. Two-thirds of survey respondents expect borrowers and lenders to either work it out or wait it out, meaning that relatively few borrowers will be flipping the keys back to their lenders or selling their property to get out from under their loans.

The continuing 'extend-and-pretend' approached could cause a longer market recovery period as the resolution of troubled assets is further delayed, Epstien said.

"Without regulatory pressure that forces resolution and gets assets traded out, it means we're going to slowly be creeping along at the bottom for a while," Epstien said. "The good news is the general economy is recovering, and there's a sense of optimism in the real estate market. But it will take a longer period of time for the market to get back to some sense of balance and normalcy."

By most accounts, however, the transaction market is healthier than any time in the last few years. Roy March, chief executive officer of Eastdil Secured, a sponsor of many huge transactions during the real estate buying boom of the mid-2000s, said public REITs are helping lead a significant rebound in investment sales this year, fueled in part by cash acquisition of distressed assets.

Capital-flush REITs show a 30% premium in net asset value -- the historical average is about 1.5% -- over private real estate companies. That's luring owners out of the woodwork to sell their property to REITs -- or become REITs themselves. A dozen companies have filed for IPOs raising proceeds of $4.4 billion to take advantage of the perceived public REIT premium, with some 50 privately held companies queuing up for potential public offerings.

Besides looming debt maturities, declining occupancies and rents are the other major hangover for the CRE markets.

"Fundamentals are still declining, but investors are underwriting through it for the next 12 to 24 months, and looking to buy now because they expect it will not be better later," March said. Sellers, meanwhile, are bringing their assets to market to quickly take advantage, perhaps because they don't believe fundamentals will improve quickly, he added.

Although banks are extending many loans, peak levels of default in 2010 will lead to a burst of sales activity, particularly distressed assets funneled through special servicers.

"We're involved in bringing a $1 billion portfolio from a special servicer to market, over 200 assets and literally over 200 trusts involved, being pooled into one possible overall portfolio to see whether or not the market will respond to that in bulk," March said.

International Influx
國外投資者進入美國商業地產市場

By Philip G. Skinner and Abe J. Schear (CCIM Magazine May/June 2010)

The role of foreign investors in the U.S. real estate market ebbs and flows with a host of factors. Though not quite as predictable as the tide, its movement often is in tandem with the market's fundamental drivers. Currently two factors — the decline in commercial real estate prices and the constraints on available capital to finance or refinance — align to make this a very favorable time for foreign investors with sources of equity or debt to acquire U.S. real property.

When these aspects of the U.S. market are coupled with global factors such as favorable currency exchange rates, instability of various kinds in other countries, and the desire to achieve both product and geographic diversification on a worldwide scale, the time appears to be ripe for foreign investment capital to come to the U.S.

The answers to certain key questions about the prospects for foreign investment in U.S. real estate in the next year or two will help stateside commercial real estate professionals understand the current trend and perhaps profit from it. Is the current market climate likely to attract more attention from foreign investors?

Foreign investors looking to the U.S. now likely are experienced investors who have invested in a number of countries around the world. These savvy investors believe that they can take advantage of the problems that the U.S. commercial real estate industry currently is facing. They believe that the U.S. offers the best global opportunity for capital appreciation at this time, while also being the safest country in which to invest. They can be aggressive and effective negotiators and can wield their foreignness as both a sword and a shield in negotiations. They know how to make a deal but also are willing to walk away if the deal doesn't suit them.

U.S. market dynamics clearly give any investor who has capital or access to ready capital the opportunity to make investments in good properties at a greatly reduced cost basis, and of en well below replacement cost. We should expect that many foreign investors will take advantage of this opportunity in the next two to three years. This wave of investment will have the beneficial effect of helping depressed U.S. real estate markets find and define the bottom of the current cycle and help lead to an eventual recovery.

What types of properties interest foreign investors?
Discussions with Israeli and European investors over the course of the last year indicate a wide variety of U.S. real estate investment interest. Core central business district office properties in major markets, multifamily/residential in locations with projected long-term positive demographics, and retail, including both grocery-anchored neighborhood retail as well as major mall properties, came up most frequently. Industrial, hospitality, and mixed-use projects came up far less frequently. Regardless of property type, foreign investors uniformly are interested in taking advantage of depressed U.S. prices, as well as a scarcity of financing, to drive good deals in the next year or two. They believe that in many cases property valuations are the lowest they have been in 15 or even 20 years, not withstanding the fact that many properties have ongoing solid cash flow and stable rental income in place.

Foreign investors also prefer off –market opportunities or properties that are being quietly marketed, rather than those where they have to bid competitively in the open market. Foreign investors are not afraid to use discounted debt acquisitions as an indirect vehicle that ultimately will lead either to acquisition of the underlying assets or favorable loan repayment terms.

What deal structures work best?

Many of the larger foreign investors with sufficient capital are interested in direct investments or co-investments with U.S. strategic partners. Regardless of the type of joint venture vehicle used, the foreign investor typically wants to be the majority partner with control over major decisions, allowing its U.S. strategic partner to have day-to-day operational control and responsibility, including the right to earn arm's length fees for necessary services including property management and leasing services. For cash-strapped U.S. property owners that may be faced with looming debt maturities, cutting a 90/10 or a similar deal with a foreign investor that will allow the U.S. partner to retain some ownership, earn leasing and management fees, and also have a profit participation based upon a typical waterfall distribution can literally save the day. Of course, many foreign investors might look to negotiate with lenders on such deals to acquire the debt, based on a loan-to-own strategy.

What are the biggest challenges in putting together a foreign investment deal?
Challenges of en relate to the learning curve: helping foreign investors understand the market, submarket, and property conditions that characterize a particular investment and dictate the time to make the deal; familiarizing them with the relevant U.S. deal process, including the use of non-binding letters of intent followed by full contract negotiations, a due diligence period, and a closing period; helping them select, engage, and work with brokers, surveyors, environmental consultants, and title insurance agents and companies, among others, all of whom may play different roles than in the investors' home countries and may cost more than they anticipate; and structuring the joint venture relationship between a foreign investor and its proposed U.S. strategic partner. All take time, patience, and expertise to help coordinate the foreign investor's path through what may be an unfamiliar and uncomfortable landscape.

What geographic markets interest foreign investors?
Generally foreign investors who don't have strong strategic alliances with U.S.-based partners are interested in major U.S. markets and core CBD areas that they already are familiar with, such as New York City, Boston, Washington, D.C., San Francisco, and Los Angeles. These are areas they believe will rebound well in the next five to seven years, if not sooner. A strong alliance with a U.S. partner can widen the focus to include a variety of products in a greater array of market areas, with the foreign investor relying upon its U.S. partner to identify appropriate markets and properties.

What foreign investors are looking at U.S. properties?
Traditionally, investors from around the world have looked to the U.S. as a safe haven for commercial real estate investment. Investors from Germany, Holland, Israel and other Middle Eastern countries, Canada, Japan, and China have been historically active. Currently investors from many of these locales who are in strong financial shape are looking at the U.S. based on the belief that the timing is again right for them to invest.
Some of these investors held off investing in the U.S. from 2004 to 2007, as commercial real estate here became more overheated. During this time some foreign investors felt that other areas of the world offered greater upside potential and less downside risk than the U.S., including areas that were considered to be emerging markets in Eastern Europe, India, China, and Brazil. Now the tide has turned: Many emerging-market economies have been shaken by the worldwide financial crisis, and U.S. prices have come down to what some investors view as historic levels, creating capital appreciation opportunities that only come around once in a generation.

What skills are needed to succeed with foreign investment deals?
The skills are the same as those used when dealing with U.S. investors. But such skills have to be packaged in a manner that is at the same time clear, convincing, informative, articulate, direct, helpful, patient, and deal oriented. Also, one must be aware of the differences in the level of involvement of various professionals. For example, in a number of other countries lawyers play a greater or lesser role than they typically play in U.S. transactions. Civil law systems of en use civil law notaries, who play a much greater transaction role than U.S. notaries. Title insurance, which is universally desired or required here in the U.S., may be an unfamiliar deal requirements and an unanticipated deal cost for some foreign investors. Good communication and sensitivity to

cultural differences can help to minimize or avoid misunderstandings and manage expectations of the foreign investor.

What kinds of connections facilitate foreign investment deals?

Developing a plan that will introduce you to foreign investors and their brokers, attorneys, or other professionals locally or overseas is the best way to create a favorable environment for working with foreign investors. Trade associations, foreign chambers of commerce, consulate offices, and other groups exist in which these kinds of interaction can occur over time. T e time to work on these relationships is now, before a deal is at hand. By doing so, you and your foreign investor partner or client can be poised to strike when the time is right, rather than having to complete negotiations with each other first.

Scarcity Premium Seen Driving Current Cap Rate Compression
稀缺性（需求大於供給，貸款利率的預計上漲）導致最近穩固型商業地產買賣的投資回報率降低

By Mark Heschmeyer (CoStar)

Last year, capitalization rates on large office property sales rocketed from the mid-6 range to the mid-8 range. So far this year, cap rates have reversed course, falling back just as rapidly to mid-7 range. Under 'normal' conditions, this would imply that property values are increasing. So why isn't the commercial real estate industry elated?

Cap rates are a benchmark determined by dividing income by property value. Increasing cap rates typically imply that property values are falling. Last year, no one in commercial real estate doubted that the rapid rise in cap rates reflected an equal rapid decline in property values.

However, this year's decreasing cap rates, which would normally imply rising property values, are being viewed with some skepticism over whether they reflect a long-term trend in values, or simply a short term phenomenon.

According to Fred B. Córdova III, senior vice president / Investment Services Group for Colliers Asset Resolution Western regional team, the current cap rate phenomenon starts with that fact that there is two to three times more capital (debt and equity) in the market than there is product. That factor alone has pushed values up by 20% in three months, he said.

"There is a flight to quality NOI (net operating income) with a rational 'governor' that is price per square foot," Córdova said. "We are seeing some pricing here in Los Angeles (with cap rates) as low as 5% based on market rates. That said, there is a great deal of anxiety out there as to how far cap rates have fallen in the last six months. Foreign money is leading the charge."

According to Córdova, the current imbalance of available high quality office properties and the amount of capital seeking to invest in them has created what he calls a "scarcity premium."

"The market's fear/greed bipolar condition has created a scarcity premium that has pushed cap rates down by as much as 200 basis points, driven asset values up by 20%, for high quality, stabilized assets in submarkets with historically solid fundamentals in just three months," stated Córdova. "The only distressed properties that are coming to market are those with little hope of value recovery for the foreseeable future (more than three years). The most common examples of these are residential lots, followed by broken condo projects, apartments in markets with high unemployment and vacant unanchored retail properties. Neither the mini-bubble on the high end, nor the freeze on distressed asset transactions is sustainable."

Roy March, CEO of Eastdil Secured, also described the bifurcated activity in the current equity market focusing on either "trophy or trauma" assets.

"We began to see investors come off the sidelines in summer of 2009. After Labor Day, the depth of field for those bidders tripled, and we've seen it triple again in the first quarter," March said in comments during a panel discussion this week at DLA Piper's 2010 Global Real Estate Summit in Chicago.

The deepening pool of bidders has increased the certainty of closing deals, with due diligence and closing periods getting shorter. However, that is also putting upward pressure on pricing, he noted.

March echoed Córdova's view on the lack of quality assets coming to market producing a "scarcity premium."

"What we don't know is if this is a sugar high or whether we're going to see this as the new level of pricing," March said.

In the last few months, cap rates have tightened 100 - 150 basis points on the trophy deals relative to transactions focused on yield, he said.

"For non-stabilized assets, basis rules," March added. [Buyers] "are throwing away the yield calculation and looking at how much they're really buying it at, as a discount to either peak market or construction costs. That's drawing a lot of sellers back into the markets."

March said annualized sales volume is up 50% in 2010 versus 2009. Granted, the increase is more of a limbo than a high jump relative to 2009's dismal sales volume. But having said that, and looking at Eastdil's own transaction book as a market proxy, "we think [sales are] going to be at between 2003 and 2004 levels. We think it will be north of $75 billion in volume this year," March said.

March also said that projections for higher interest rates later this year are also driving the current market dynamic.

"There will be a big rush between now and the end of the year to get stuff to market and priced while interest rates are where they are. There's a lot of concern about interest rates going up post-election, and [sellers] want to take advantage of what they know today."

Robert Erlich, president of International Realty & Investment Inc. in Fairfax, VA, has been involved on both ends of deals involving 7% - 8% cap rates.

"I have been involved on two sales the last 11 months -- one as a seller of a multi tenant office building that sold at a 7% cap rate. I feel it sold for such a good price because it was a good location, it was where the buyer / user wanted to be and, with his lease in place, it was 100% leased and producing income. That was a $4.3 million sale," Erlich told CoStar Group. "The other property was a school that I purchased at a 8% cap rate and the reason I paid $7.625 million is that it is in a very good location and, it is 100% leased to a very strong educational tenant. I feel that the education industry is one of the few that have won the battle during the current economy."

However, Erlich does not believe the market has bottomed out for multi-tenant properties. "In this area there are still a lot of buildings that are in real trouble and losing tenants every day. (But,) "I do not think that buyers are getting too aggressive. I think competitive is a better word. There is just not a lot of quality product out there," Erlich said. "I do think that if you own quality, income producing product you are in the driver seat due to the shortage of solid product out there. I have been getting offers for some of our properties at a 6.5%-7% cap rate."

Outside of the "low hanging fruit," though, others in the industry believe negative fundamentals in the office markets are still ruling the office investment market.

David E. Thurston, director, NOIPG and Net Lease Group of Marcus & Millichap in Elmwood Park, NJ, said that the "sales that are closing that are driving the average cap rate to 7% -8% levels, are those that are in high demand and have multiple bidders, (namely) Class A properties in A locations."

Thurston added that if there were more buyers in the market - which there are not -- then more properties would be trading in the 10-12% cap range.

Scott D. Rabin, senior vice president of Edge Commercial LLC in Bethesda, MD, agreed.

"The volume of investment sales and time horizon is too short to see a real trend," Rabin said. "We need to see a sustained period (that is, four quarters or more) a higher volume of transactions before we can make a definitive conclusion. The spread is very thin between the cost of capital and the type of returns being accepted. Rents will need to rise and vacancy rates will need to fall for caps rates to hold on. I believe some buyers are being too aggressive but that most buyers are still seeking cap rates north of 8%."

What follows are additional comments from CoStar Group News readers regarding their take on the current office investment market.

Post Downturn Resurgence

"Value-add has yet to be redefined in this market, with market vacancy contraction not yet showing up, leaving ultra-opportunistic (vacant) property (particularly REO) as the only high-IRR money targets, and the rest of the world focused on Class A, tier-one and somewhat tier-two city product. I don't know that the second- and third-tier cities are necessarily doing significantly better or worse fundamentally, but the money that has gotten back in so far has definitely focused more on the core, Class A assets in top markets, which is typical of any post downturn resurgence in real estate investment.

"The $64,000 question is, what happens to investment real estate mortgage interest rates in the coming years? Overall values will be driving by the leveraged cash returns yielded by the lending side of the equation. Treasury rates will almost certainly rise, but spreads on real estate lending continue to compress. There are many borrowers that are willing to take 5-year money today instead of longer-term fixed rates, convinced that the future rise in benchmark rates will be offset by further spread compression, and that five years out we will have interest rates on mortgage loans that are similar to, or even less than, current rates.

"Some would argue that anyone that isn't yet back in the market has already missed part or much of the opportunity. Institutional investors generally realize that short of being purely market timers they are buyers and sellers in the same markets, up and down. The key is buying the right properties, or buying properties right, at any given point in the market cycle. The individuals and institutions that entrust these fiduciaries with money to invest generally don't do so expecting their fund managers to sit on the money for years at a time wondering what might or might not be the future, forsaking current cash returns in the meantime. At some point, there is more danger being out of the market than being in it - witness anyone that sold their stock portfolios in late 2008/early 2009."

Gabriel Silverstein
President
Angelic Real Estate
New York, NY

Get in Early

"Pent-up demand from excess capital seeking to meet portfolio diversification goals and seeking to participate in CREs fundamental recovery is driving the cap rate compression. Are buyers being too aggressive? Depends on their time horizon, the metro location they are investing in, the product type they are focusing on, and the specifics of the particular property or portfolio they are considering purchasing. If they're going in at 7% -8% NOI cap rate today, on real numbers, and if their horizon is 5-8 years, then in my opinion they are not too aggressive.

"If you believe, as I do, that 1) economic growth will continue, and that 2) employment will increase (creating demand for building space of all types), that 3) the Fed will keep rates reasonably low for the foreseeable future to stimulate the economy, and that 4) new construction will remain subdued (well below the "irrational exuberance" levels of 2005-2007) because so many "burned" lenders are still in business, then the answer is this trend will last. We have reached (or will reach in 2010) the bottom of the demand/price/value cycle for CRE in most property types in most U.S. metro markets, so, the next up-cycle is beginning."

Scott Kowalczyk
President
Kowalczyk & Co.
Marietta, GA

Don't Want To Miss the Bottom

I think buyers are too aggressive due to competition and lack of good supply. People don't want to miss the bottom with the promises they have made to investors. It will stay here for a while because things have stabilized but won't improve significantly for some time.

Doug Rittermann
Sales Associate
ECP Commercial
La Mesa, CA

It's a Crap Shoot

"Cap rates are coming down where occupancy is high and rents are reasonable. Remember that unemployment is still rocketing in many states. So office building investment is a real crap shoot from what I can see and hear and read. Cap rates are low because too much money is looking for quality deals but can't find quality properties that make any sense. So the money guys press on so they can keep their jobs at any rate and they drop that cap rate if they find a nice A or B class building where the elevators work."

Bob E. Nagel
President
Nagel & Co.
Atlanta, GA

Expecting Higher Interest Rates

"As a past Wall Street money trader I am very familiar with money rates. There are two factors that are driving cap rates presently. One is the expectation of forward [interest] rate increase. There is no doubt that the fed will raise rates, no less than by year end. And second, the five-year cycle of money lending will be coming up in 2011, with more than $500 billion of commercial loans coming due. The competition for money, both in the private sector and government to support the deficit, demands higher rates. This coupled with a moving target valuation model of what is the real worth of property requires a much more diligent approach to the future cost of money, or cap rate as you refer. There is also the "new" -- if not dusted off -- valuation method of "discounting" cash flow with lease rates on the downward cycle. Cap rates are reflected in both money stream evaluations."

Gerry Goldstein
Sales Associate
NAI Halford
Pensacola, FL

"I believe it is a function of low interest rates and the fears that future rates will go up. If you look at the prime rate over the last five years, we are extremely low historically. This combined with a very soft real estate market and some of the best per-square-foot pricing in a long time, tells investors it's time to buy some Class A space."

Brian Patton
Broker
Capital Realty Advisors
Atlanta, GA

Money Raised for Spending, Needs To Be Spent

"I don't see this trend as being due either to the market bottom or the cost of money. Foreign investors with patient money have invested, still regarding the U.S. as a stable real estate market relative to other choices. Another factor is some private equity real estate funds with capital raised two to three years ago needed to make investments per their fund agreements, or return the money to the investors."

Susan Lawrence
President & CEO
Real Estate Strategies Inc.
Winter Park, FL

Volume Is Up, Values Aren't

"I am seeing the opposite (trend) in transactions in the South Florida market for unanchored office buildings or retail from the $1 million to $10 million range. If anything, transactions have picked up but values have continued to slide. The reason that I believe we are seeing transaction volume increase is mostly because sellers are finally getting in line with what is undeniably the market values of their properties and are unwilling or unable to wait for an uptick in values. I will say, though, that we have reached a point where buyers are getting itchy trigger fingers with regard to "not missing the bottom" of the market."

Drew A. Kristol
Senior Associate | Member, Special Asset Services (SAS)
Marcus & Millichap
Miami, FL

Assumable Debt

"The lower cap rates are only showing on the highly occupied buildings with a long-standing track record of such. So if a building is in a great location with a long-term, good job outlook, I expect it will continue to be attractive to investors. A few points I've noticed here in Houston TX. If there is assumable, sub-6% CMBS debt on the property with 5+ years, buyers are responding. As these remaining terms burn off, I believe buyer interest will drop off, since replacement debt is very hard to come by, and not at a sub-6% rate."

Marty McAdams
President
McAdams Associates
Kingwood, TX

Investors in Search of Single-Tenant Opportunities
購物商場投資者偏愛穩固型單租戶不動產

By Beth Mattson-Teig (CCIM Magazine May/June 2010)

The retail property investment market looks a little like a battered prize fighter these days. It's down, but by no means out. Given the one-two punch of the credit crisis and the tepid economic recovery, retail investment sales are well off the 2007 peak of $78 billion. Transaction volume tumbled to $32 billion in 2008 and fell almost by half again in 2009 to around $17 billion, according to Marcus & Mill chap. But slowly investors are moving off the ropes, drawn partly by opportunities in the single-tenant niche. Buyers are fighting for well located properties in major markets and strong in-fill locations that are leased to national credit tenants such as CVS, Walgreen's, Burger King, and McDonald's. "When you look at properties priced below $5 million or even $3 million, there is still a lot of money on the acquisitions side," says Bernard Haddigan, a Marcus & Millichap managing director in Atlanta.

In fact, retail properties priced between $1 million and $10 million represented the lion's share of 2009's retail property sales — 94.5 percent of the 4,554 individual transactions in total retail sales. In comparison, properties priced between $10 million and $20 million accounted for 3.5 percent of transactions, and those properties priced above $20 million represented just 2 percent, according to Marcus & Millichap.

One key factor propping up the single-tenant sector is that many of those buyers are not looking for leverage. "They are looking for stability and cash flow, so they don't mind putting more equity into the deal to get their monthly cash flow checks," Haddigan says.

Returning to the Ring
Overall retail investment activity increased during the early part of 2010 with a rise in both the supply of properties on the market and more interest from buyers. "What is surprising me is that I have been busier in the last 45 days than I was during the last six months of last year," says Cynthia Shelton, CCIM, CRE, director of investment sales at Colliers International in Orlando, Fla. "If that continues we could have, perhaps not a great year, but a good year certainly better than 2009."

The majority of action is on two fronts. One segment of the market is small investors looking for safety: single-tenant properties structured with triple-net leases. The other group is comprised of opportunistic buyers shopping for value-add deals among distressed assets.

One reason for increased activity among net-lease properties is that 1031 buyers have started to return. Over the past two years, it didn't make sense for owners to sell property such as apartments and land, which is what, drives the majority of 1031 deals. "Today, those owners are starting to sell again for one reason or another — not a tremendous amount, but enough to keep cap rates stable," says Deborah K. Vannelli, CCIM, director of net-lease sales at Minneapolis-based Upland Real Estate Group.

Another explanation for the bump in activity is that people simply are tired of sitting on the sidelines. "A lot of people mentally buried 2009, and now they are more optimistic," says Jerry A. Williams Jr., CCIM, a vice president at Grubb & Ellis in San Antonio. Part of the buyer interest has resulted from the narrowing bid/ask gap in pricing, Williams believes, as well as the fact that some lenders are returning. "In 2009, almost no one was lending, but now we're starting to see regional banks and credit unions opening up lending for the right asset," he says.

Last year was a learning curve for lenders and the commercial real estate industry as a whole, notes Mike Milano, CCIM, MAI, managing director of retail investment sales at Colliers International in Clearwater, Fla. "As the mountain of distressed properties started to build, lenders were not sure what to do with them," Milano says. "Now lenders are going to start moving properties out, and I expect distressed sales to start picking up around the second and third quarters."

Prizefighter Strategies

Single-tenant properties structured with triple-net leases are actively trading, and there has been a definite flight to quality as buyers gravitate toward solid credit tenants and top locations in a still shaky economy. "Most buyers are acquiring investment-grade-rated tenants only," Vannelli says. That appetite has helped keep pricing strong for top tenants in good locations.

For example, McDonald's ground leases are being snapped up quickly even though capitalization rates have remained near historic lows around 5.5 percent to 5.7 percent. The problem is that those premium properties remain in short supply. "We recently sold a McDonald's ground lease in Florida at full price with seven more full-price, all-cash offers waiting in case the initial transaction fell through," Vannelli says.

McDonald's is one of the few exceptions that are still commanding cap rates below 6.0 percent. T e bulk of the net-lease investment market has seen cap rates increase 150 to 200 basis points amid tougher underwriting standards and economic uncertainty. Three years ago, Walgreen's stores were trading at cap rates between 5.7 percent and 6.3 percent. Today, Walgreen's are up about 200 basis points to between 7.7 percent and 8.4 percent. "That would be considered the baseline of the easiest to sell and even on those deals the prices have gone down and cap rates have gone up," Haddigan says.

Investors are being very cautious in underwriting both the credit and the location. Most buyers today only are looking at solid urban locations or in-fill locations in first- or second-ring suburbs with good demographics. They are attracted to core markets such as Washington, D.C., New York, Houston, San Francisco, and Chicago. At the same time, most remain wary of investing in secondary and tertiary markets: Even double-digit cap rates are not enticing them. "Almost every investor I've closed a deal with over the past 12 months either used to live where the property is located, currently lives there, has family nearby, or vacations there," Vannelli says. "This gives them additional comfort that even if the tenant fails they know the market will survive."

The return to conservative underwriting is having a big impact on pricing. Colliers International currently is marketing a single-tenant property occupied by a national book and game retailer in Orlando. The store is likely to sell for a 14 percent cap rate because the operator only has six years left on the lease. "With everyone skeptical of the retail market, buyers are wondering if the tenant will make it through for the six years, and if they do, will they renew?" Shelton says.

The Battered and Bruised

The volume of distressed properties continues to pile up on lender balance sheets. Banks alone reported $41.7 billion in commercial mortgages that were in default at the end of 4Q09, according to Real Capital Analytics. T at default rate represents 3.8 percent of all outstanding loan balances on commercial properties, which is a 16-year high for the nation's bank lenders. However, banks have been slow to write down those troubled assets and push them out into the sale market.

As a result, the distressed deals have yet to materialize as many bargain hunters had hoped. "There is a lot of paralysis on the bank side, because they can't afford to take the losses," Haddigan says. The banks don't want to take the write down, because they don't have the reserves to make sure they have their depositors' balances covered. "As distress continues to accumulate, it will force some people to act," Haddigan says. "So I think the second half of 2010 is going to be a more active acquisition market."

Florida is a big retail market hit hard by the recession. Many in the commercial real estate industry are watching to see how that market deals with its heavy load of distressed properties. “Banks and owners are just starting to realize that they will have to take a hit in order to dispose of assets that are now worth less than the debt in most cases,” Shelton says. “The income-producing assets are starting to have offers generated, but at values that shocked many.”

For example, Colliers International is listing a 45,000-sf nongrocery- anchored neighborhood center in Fort Myers, Fla., being sold at the request of the lender through a court-appointed receiver. The property sold for $3.8 million in 2003, $8.8 million in 2006, and now will likely fetch a price of around $3 million.

“We anticipate seeing a lot more product coming to the market,” Milano says. “Lenders now are more attuned to the fact that the best way to get out of their problem is to take the write-down and sell it.”

Knock-Out Opportunities

Persistence is paying off for investors who have access to capital. Commercial Alliance traditionally works as a developer of single tenant. Properties for restaurants and drugstore tenants. The firm currently is pursuing prime corner locations with the potential to redevelop or reposition real estate. “We’re seeing a lot of opportunities to buy good sites that we wouldn’t even have been able to bid on before,” says Kristian Cotta, CCIM, director of acquisitions at Commercial Alliance in Scottsdale, Ariz. Two to three years ago, the overheated investment market had produced bidding wars for well-located corner sites. Today, Commercial Alliance is finding itself in more situations where it is the sole bidder. “Now small to midsize companies can compete on a level playing field,” he adds.

For example, Commercial Alliance was poised to purchase a vacant grocery store in Corpus Christi, Texas, at the onset of the credit crisis in November 2008. T e lender backed out two weeks prior to closing. Commercial Alliance was able to find equity from a small group of investors that enabled it to purchase the property all cash. The firm has since leased the vacant grocer to a charter school and re-platted the 9-acre site to include four pad sites. The developer has sold one pad site to Jack-in-the- Box, has another site under contract to a national quick-service restaurant chain, and is working on additional deals. In the end, Commercial Alliance expects to deliver about a 30 percent return to investors. “That is an example of how you have to be creative to make deals in this market,” Cotta says.

Ultimately, 2010 likely will be a year of transition as the retail industry as a whole stems the tide of deteriorating occupancies and rents and searches for solid footing before it can start to recover. “I see the retail market trending sideways for the next 12 months, not getting much better but not worse either,” Cotta says. “Once those first deals start going through and we can gauge the success of those transactions,” he adds, “then the activity will pick up as everyone else will want to take advantage of the opportunities that are hiding.”

Is Lending Back?
全美 **60** 家最大的借貸機構表示今年會增加放款

(CCIM Magazine May/June 2010)

Lenders are ready to loosen the purse strings, according to Jones Lang LaSalle's 1Q10 survey of 60 of the industry's top loan originators. In a survey of life companies, CMBS originators, private equity, commercial banks, and government agencies, 43 percent responded that their loan production would range from $1 billion to $3 billion this year. The number of lenders expecting to lend more than $4 billion jumped from 9.3 percent in 2009 to 15.2 percent in 2010. Expected loan-to-value ratios averaged between 50 percent and 70 percent and estimated debt coverage ratios ranged from a high of 2.25 on hotels from life companies to 1.15 on multifamily from private equity. Their preferred asset? Twenty-seven percent voted for multifamily, followed by 22 percent for retail, 21 percent office, 15 percent industrial, 11 percent hotels, and 4 percent other.

Tax Credit Programs Boost Funding for Qualified Properties
稅收抵免計劃增加合格地產的資金與貸款

By John W. Waldeck Jr. (CCIM Magazine May/June 2010)

The dominos continue to fall in the commercial real estate market, leaving lenders exceptionally conservative in making loans for new projects. Loan-to-value ratios in the 50 percent range are not uncommon. In fact, some would say that outright rejections are the norm.

But not all news is bad. Opportunities exist in segments that can take advantage of existing and evolving federal and state tax credit programs, such as historic tax credits and new markets tax credits. Qualifying projects have the advantage of significant equity creation, which bridges the difficult loan-to-equity gap in today's market.

There is a catch, however: Not all projects will qualify. For federal and state historic tax credits, as the name implies, an existing, qualifying property's restoration must conform to standards issued by the U.S. Department of the Interior. For new markets tax credits, projects must be located in a low-income census tract (many urban centers qualify). Renewable and green energy credit programs also may generate credits at the state and federal level.

Historic Tax Credits

Developers may use federal historic tax credits to raise equity equal to either 10 percent or 20 percent of the project's rehabilitation expenditures. Land and purchase costs do not count, and rehab expenditures must exceed the developer's basis in the project. The majority of projects use the 20 percent credit, which is available for certified historic structures or qualifying structures that are in certified historic districts. Additionally, such funding requests require a three-part application, which is approved by the state historic preservation office and the National Park Service. The federal credit is automatic. If developers follow the proper guidelines and application, the 20 percent credit may be taken in the year in which the project is placed in service. State programs may be automatic or based on competition.

HTC equity comes into the project in the form of a capital contribution made by an investor in the project, usually C corporations with taxable income — many still are very active in the market. These investors contribute at the rate of 75 cents to 95 cents for each dollar of credit passed through to the investor. The investor remains in the project for the five-year tax-credit-recapture period, during which time there can be no sale or disposition of the property.

Numerous HTC projects would never have been completed, let alone realized, without this program. For example, in Cleveland much of the nationally publicized East Fourth Street District (which includes the House of Blues in a former Woolworth building and Iron Chef Michael Symon's Lola Restaurant) was restored and converted to an urban mixed use retail and residential development, employing a combination of federal and state HTC.

New Markets Tax Credits

While new markets tax credits also may fill equity gaps, they differ from historic tax credits in a number of respects. As contrasted with HTC, NMTC are available to the taxpayer over a seven-year period in an amount equal to 39 percent of the qualified investment (5 percent per year for three years; 6 percent per year for the next four years). Also, NMTC are allocated annually on a competitive basis, requiring the developer to approach a successful allocate with the project request.

These allocates may include banks, community development corporations, port and development authorities, and the National Trust for Historic Preservation.

Investment may be direct or through a leveraged structure. Due to the structure's complexity, fees and expenses can be significant; the project's size needs to be large enough to justify the costs incurred.

The beauty of NMTC in a real estate project is that these credits can be combined with HTC in an appropriate project (residential components are significantly limited) to further boost the equity component to the point that the equity gap is nearly filled. A developer's typical equity contribution would not be sufficient. But with the push given by the tax credit equity pieces, the project will green light, notwithstanding a conservative loan-to-value ratio. A recent example is a Cleveland hotel financing that closed in early fall 2009. The project, the conversion of the 1930s-era Tudor Arms into a Doubletree Hotel, featured HTC, NMTC, a conventional construction loan at approximately a 50 percent loan-to-value ratio, and some additional layers of financing from community development sources. Getting a hotel deal done in the current environment is virtually impossible, yet with the twin engines of HTC/NMTC bolstering the financing it became a reality.

Other Credit-Based Financing

The number of renewable energy and green tax credits continues to grow. Developers on the cutting edge of affordable housing tax credits have successfully used solar panel technology to qualify for tax credits or outright grants to reduce energy costs to tenants and pay for otherwise cost-prohibitive installations, giving hope that commercial real estate projects could also be suitable candidates for such installations.

For commercial and industrial projects that generate jobs, the more-traditional enterprise zone tax abatements and jobs creation tax credits of en are available at the state or local levels. The tax-burden reduction changes the pro formas of such projects for the better, increasing appraisal numbers in a time when every dollar is critical. Prospects are dim for near- or even mid-term restoration of more customary loan-to-value ratios. This means only those projects with significant equity to plug the gap will be built. Because such development doldrums often translate into developer demise, it's time to take a look at tax credit programs and qualifying development to generate some lifeblood in the commercial marketplace.

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	4.875%	5.065%
• 30-Year Fixed FHA	5.000%	5.762%
• 15-Year Fixed	4.250%	4.573%
• 5-Year ARM	3.625%	3.638%
• 5-Year ARM FHA	3.500%	3.266%
Larger Loan Amounts in Eligible Areas – Conforming and FHA		
• 30-Year Fixed	5.000%	5.138%
• 30-Year Fixed FHA	5.125%	5.838%
• 5-Year ARM	4.000%	3.725%
Jumbo Loans – Amounts that exceed conforming loan limits		
• 30-Year Fixed	5.500%	5.643%
• 5-Year ARM	5.125%	4.142%