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Downside Risk for Private Real Estate Investment Diminishes As Capital and Property Market Cycles Approach Trough
市場即將接近谷底，私有商業地產的投資風險降低

By Mark Heschmeyer (of CoStar)

Despite real near-term challenges -- and in some ways because of them -- there is a compelling case for private real estate in a diversified portfolio, according to Philip Conner, U.S. office principal of Prudential Real Estate Investors in a new report released this past week.

Although the risks and challenges of executing an investment program in the current environment are real, the dramatic correction in commercial property values since the market peak in late 2007 provides an attractive entry point for long-term investors seeking exposure to the asset class, Conner argues.

The fallout from the credit market crisis and severe global recession in late 2008 and early 2009 took a heavy toll on commercial real estate. Property values plunged as risk and capital were re-priced, while vacancies soared as tenant demand contracted. The upside, Conner writes, is that with the capital and space market cycles both near trough levels, there would appear to be less downside risk for property values.

The risks are primarily related to properties that were acquired or refinanced with high leverage during the peak of the market cycle. The decline in property values has wiped out most or all of the equity that was invested. Even assets that have equity remaining will face challenges at refinancing due to the deterioration in property income and more conservative underwriting by banks.

Yet today, the economy is adding jobs again, and most major asset classes are up sharply from the lows during the crisis. Thus, Conner argues, real estate values and tenant demand will follow, and the only questions relate to the timing and strength of the recovery.

What makes investing in real estate at the bottom of the cycle attractive is not much different from in the stock market, Conner writes. Investors can acquire assets at relatively low multiples (i.e., high capitalization rates) based on depressed earnings, and capture gains from both the improvement in income and the higher multiples (i.e., lower cap rates) investors assign to that income.

Lastly, although it may not qualify as a "risk" per se, Conner writes that investors face serious challenges deploying capital today. Transaction activity remains depressed across the board, but the volume of distressed deals in the direct market is a tiny fraction of the amount of distress known or believed to exist in the U.S. alone. Much of the distressed activity to date has involved trading paper -- particularly investors buying discounted positions in the debt capital stack, from senior debt to mezzanine. Deploying capital may get easier as more troubled assets come to market, but the more complex capital structures that became commonplace during the height of the boom will make it far more difficult to acquire properties directly.

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Nonresidential Construction Activity Lackluster Through April
南加州商業地產的建築業持續低迷：與去年相比，建築許可證的申請與批准皆有所下降

By Jack Kyser (LAEDC)

The latest data from the Construction Industry Research Board indicates that nonresidential construction activity in Southern California is still running at a lackluster pace. In Los Angeles County through four months of 2010, industrial permit valuations were lagging last year by -15.9%, office was behind by -63.1%, and retail was down by -28.5%. Hotel permits in the County held at $24.0 million, compared with no activity in the 2009 period. Total nonresidential building permit activity in the County at the four-month mark was off by -3.2%.

The news from Orange County was a tad more positive. New industrial permits were valued at $23.0 million compared with no activity last year. No hotel permits have been issued in the County so far this year. However, office permit values were up by +258.4% over the year while retail was ahead by +61.7%. Total nonresidential activity in the County so far in 2010 was up by +3.7% over last year.

In Riverside County, no industrial permits have been issued so far in 2010. Permits valued at $12.9 million have been issued for hotels compared with none in 2009. Office permits were up by +405.1% over the four month 2009 period. But retail trailed by -2.5%. Total nonresidential permit values in the County so far in 2010 were up by +26.4% over the comparable 2009 period. In San Bernardino County, $15.8 million in industrial building permits have been issued versus none at this time last year. Office permits trailed last year by -52.2%, but retail was up by +1.9%. No hotel permits have been issued yet in 2010. Total nonresidential permit values in San Bernardino County were down by -23.6% from last year.

The news for San Diego County was more upbeat. Office permits values were up by +201.3% and retail was ahead by +20.3%. Permits for hotels valued at $1.1 million have been issued versus none last year. The only laggard was industrial, which was down by -46.1%. Total nonresidential permit values in the county were down by -17.9% over the like 2009 period.

In Ventura County so far in 2010, no permits have been reported for either industrial buildings or hotels. $4.0 million in office permits have been issued compared with none last year. Retail permit values, however, were up by a strong +256.4%. To date in 2010, total nonresidential building permit values were up by +13.0% over last year.

The situation in the none-county Bay Area was quite mixed. To date in 2010, industrial building permit values were up by +352.4% over the year (much of this activity was in Alameda County), while office was ahead by +114.1%. Retail was behind by -51.7%, while no hotel permits have been issued so far. Total nonresidential permit values so far in 2010 were down by -1.0% from the comparable 2009 period.

Although It May Get a Lender's Attention, Defaulting Is Considered a Risky Debt Strategy
不少業主以退為進，用拖欠貸款來與借貸方商談重組貸款，但此舉風險很大，可能得不償失

By Mark Heschmeyer (CoStar)

As the volume and number of underperforming commercial real estate loans mounts, so has the number of owners who have or have considered turning to loan defaults as a strategy for forcing a refinancing or to get out from a loan that is underwater altogether. However, experts say this is a high-risk strategy for managing troubled debt at a time when access to money has become tight and as regulators pressure lender away from workouts.

John B. Levy & Co. drew attention to the issue this past week in a podcast called "To Default or Not Default? That Is the Question."

"What we're seeing is that some borrowers are being advised to stop paying on their loans if they want to get a discount . . . to default," said Andrew Little, principal at John B. Levy & Co. "And that is really bad advice. Borrowers who are experiencing problems with their debt need to take a more measured approach when working with lenders."

Even as some borrowers are facing the prospect of default, lenders are holding onto a substantial amount of capital. In fact, Little suggested that there is more capital available these days than there are good deals to fund. The total disarray of the global market over the past couple weeks has resulted in a run on hard assets, and investors are vigorously pursuing real estate in the U.S.

"What we're seeing is a 'Tale of Two Cities' scenario," Little said. "There's a lot of capital available in gateway cities, and then there's everyone else - the secondary and tertiary markets. And as for the lending world, investors are ready to make loans on the premium properties, but they're turning away from properties that aren't at the top of the A-list."

CoStar Group put the question of whether a loan default should be considered a viable strategy to a number of other industry professionals. Their answers, for the most part, suggest the strategy can be viable, but only after other options have been exhausted and all that is left is bankruptcy, a short sale or a deed-in-lieu.

"I would not advise clients to walk away. I don't think it's worth ruining a professional lending relationship that may have taken years to develop," said Charles G. Argianas, president of Argianas & Associates in Downers Grove, IL. "Unless the borrower absolutely cannot make debt service, I would not advise clients to walk away from their responsibilities, I just wouldn't."

"We have seen CMBS borrowers defaulting on loans prematurely as a tool in order to get more attention from their lenders and special servicers," said David Goldfisher, principal of The Henley Group Inc. in Natick, MA. "Typically, well thought out and detailed plans for resolving a troubled loan in advance of a default is a much more effective way of communicating with your lender and will provide them the right incentive to negotiate in good faith."

"Default is always an option for owners and always has been, but it should be the last strategy after previous attempts to contact the lender or special servicer," said Mark J. Chapman, senior vice president of PM Realty Group in Hudson, MA. "It may be an effective strategy if the lender/special servicer is too busy to focus on a particular owner's issue. However, it is only effective if a borrower/owner has several viable options to put in front of the lender that address both property issues and the lender's regulatory constraints."

But while the consensus recommendation may be to avoid defaults, the reality is: it is happening, and happening successfully in some cases.

"We recently sold a multifamily asset in Mesquite, TX, in which the owner defaulted and was 60-days delinquent," said William C. Jarnagin, an associate with Marcus & Millichap in Dallas. "During the process of closing, we stepped in to assist the borrower with negotiations with the lender and the lender actually reduced the interest payments on the loan by half for one year and gave a conditional agreement to extend for another year. We are working several assets where the borrower has considered this currently."

"This is only an effective strategy for distressed debt that will undoubtedly need a significant write down to clear the market if the lender does end up owning the asset," Jarnagin added. "There has to be a significant level of distress. Physical deficiencies and code issues are likely to weaken the lenders desire to take possession of the asset. Properties that are nearly covering debt service and do not need significant capital injections are not likely candidates."

Todd A. Carlson, a senior associate with Marcus & Millichap in Houston said the strategy has been used more successfully with CMBS-type debt because of the ability for special servicers to modify loans that are in default or non-payment status.

"I think it is used in situations where the debt is non-recourse so the lender/special servicer must just rely on the asset to recoup any losses," Carlson said. "If a borrower can prove that they weren't the reason for the default, and they are a quality owner/operator, the lender might consider them the best option with the fewest costs and liabilities."

Dan Colton, principal of Colton Commercial in Tempe, AZ, said the strategy of pursuing a loan default is also sometimes used in cases in which there are multiple loans on the property.

"The borrower defaults on loans in second and third position while keeping the first current. Drawing the secondary lender(s) to the table appears to be a viable option that is starting to occur in the market place," Colton said. "Other conditions to obtaining potential discounts are strengths associated with loan guarantees, if the lender can absorb the discount or if the notes have been sold."

Marty Busekrus, an investment sales associate with NAI Rauch Weaver Norfleet Kurtz & Co. in Fort Lauderdale, FL, sees this used as a strategy more commonly on the CMBS side where the special servicers are not inclined to deal with the sponsor until the borrower has defaulted.

"Once the loan goes in to the 30 days past due case, the bankers are all over it and that's when the special asset managers and attorneys get involved," Busekrus said. "That could go either way for a borrower. It's true, you will get the attention of the bank, but probably not the good kind of attention. Depending on who the special assets manager is, they may be very experienced and been around the block a few times, in which case the strategic default may not work out in the borrowers favor."

California's Resale Housing Market in April: Sales Fell and Prices Rose
加州四月份的二手房屋買賣：交易減少，價錢升高

By Kimberly Ritter (LAEDC)

The California Association of Realtors (CAR) recently released their April 2010 report for existing home sales and prices in California. Statewide, sales of existing single-family homes fell by -8.1% compared with April 2009 to 483,830 units (seasonally adjusted, annualized rate). This was the first time sales fell below 500,000 units for the month in 19 months. Meanwhile, the median price jumped by +21.0% to $306,230. On a month-over basis, sales declined by -6.4% in April, but the median price rose by +1.5%.

In Los Angeles County, unit sales during April edged up by just +0.1% over the year, while the median price climbed by +12.7% to $338,970. In Orange County, unit sales advanced at a more robust pace – rising by +15.2% during April. The median price also increased, advancing by +13.7% over the year to $491,120. Compared with March, the median price increased by +3.0% in Los Angeles County but edged down in Orange County by -0.4%.

The Riverside-San Bernardino area continued to struggle in April. Unit sales suffered a steep decline, falling by -24.7% compared with April 2009, but inched up by +2.0% for the month. The median price in the Inland Empire gained +17.3% over the year, rising by +17.3% although compared with March, the median price slipped by -0.5%.

Unit sales in San Diego County were down by -7.2% in April. The median price, on the other hand, was up by +15.2% to $388,480. On a month-over basis, sales dipped by -3.0% as did median price (-1.3%). Ventura County saw unit sales rise by +18.0% in April with an accompanying increase in median price to $442,610 (+12.2%).

In the San Francisco Bay area, unit sales advanced by +5.9% over the year. The area's median price increased by +32.3% to $583,280.

The CAR reported that the unsold inventory index for all types of homes rose to 5.1 months in April, compared with 5.0 months at this time last year. Demand for foreclosed properties remained strong last month and exceeded the number of distressed homes available for sale. Homes priced at $300,000 or below posted only a 3.3 month supply (the historical average is seven months).

Major Chain Stores See Sales Uptick, Unless They're Selling to Teens
主流連鎖店的銷售額增加（目標市場為青少年的連鎖店除外）

By Dees Stribling (Commercial Property Executive)

On Thursday, Thomson Reuters' survey of 28 major U.S. chain stores found that they posted a 2.5 percent year-over-year increase in same-store sales in May. A gain is better than a loss, but that figure was nevertheless disappointing in the wake of 4 percent year-over-year gains in February and 9.1 percent in March (then again, those were two 2009 months were among the worst for retail sales in recent history).

Unsurprisingly, discounters maintained their strength in May, turning in a 5.3 percent gain compared with the same month last year. TJX Cos., whose brands include T.J. Maxx and Marshalls, for instance, reported a 4 percent same-store sales increase in May.

Retailers catering to teenagers, always a tough market, had a hard month. Abercrombie & Fitch Co. and its rival American Eagle Outfitters Inc. both saw declines in same-store sales of 3 percent, but that wasn't as drastic as California-based Wet Seal, which experienced a 9 percent drop in same-store sales during May.

Bankruptcies Still Increasing

The U.S. economy might be improving, but that overall abstraction isn't much comfort yet to many household economies. According to Automated Access to Court Electronic Records (AACER) on Thursday, more than 133,450 U.S. bankruptcy petitions were filed in May, 10 percent more than during the same month in 2009.

The May total was down 9 percent from April's 146,209, but AACER chalked that up to the fact that there were just 20 business days in May compared with 22 in April. Average filings per day edged up to 6,673 in May from 6,646 the month before.

Through the end of May, there have been a bit more than 659,500 bankruptcy filings this year, up 15 percent from a same period last year, according to AACER. About 16 percent of filings this year have been in California, while another 7 percent were in Florida and 6 percent were in Michigan. On a per-capita basis, Nevada had the most filings, followed by Georgia and Tennessee.

Jobs, Jobs, Jobs

The official job numbers weren't ready on Thursday, but that didn't keep unofficial numbers from being published. Non-farm private employment increased 55,000 from April to May on a seasonally adjusted basis according to the ADP National Employment Report. The estimated change in employment from March to April was also revised upward, from an increase of 32,000 to an increase of 65,000.

The Monster Employment Index rose by 1 point in May as a number of industries continued to step-up their online recruitment efforts. The annual growth rate during May was 16 points, the highest year-over-year growth rate since April 2007, indicating the demand for labor is strengthening.

Wall Street spent Thursday anticipating official employment numbers, and in the end didn't move too far one way or the other. The Dow Jones Industrial Average ended up 5.74 points, or a scant 0.06 percent, while the S&P 500 and the Nasdaq gained 0.41 percent and 0.96 percent, respectively.

Hotel Outlook Improves: STR Finds Largest Quarterly Increase in Hotel Demand since the Second Quarter of 1989

酒店前景好轉：調查顯示 2010 年第一季度的酒店住房需求的上漲達到自 1989 年以來的最高幅度

By Mark Heschmeyer (CoStar)

U.S. hotels should enjoy revenue growth the rest of this year, but it probably won't translate to the bottom line until next year, according to new lodging industry reports released this past week.

According to Smith Travel Research (STR), lodging demand in the first quarter of 2010 increased 5.3% compared with the first quarter of 2009. This is the largest quarterly increase in hotel demand since the second quarter of 1989.

Hotel transaction activity also appears to be thawing, although it still remains a fraction of what it was a couple of years ago, according to Jeff Myers, a real estate economist with CoStar Group, Inc. Through the first four months of the year, hotel sales volume was on pace to surpass 2009's total, and its proportion of overall commercial real estate investment activity has spiked.

Revenue Ready To Rise; Profits Not Quite
Revenue per available room (RevPAR) could grow 1.7% this year but NOIs could contract another 1.4%, according to the May 2010 edition of PKF Hospitality Research's Hotel Horizons.

"We believe the first-quarter surge in occupied rooms foretells the start of a strong comeback in the demand for lodging accommodations," said R. Mark Woodworth, president of PKF-HR. "As early as September of 2008, we anticipated the inflection point for hotel demand to occur in the first quarter of 2010, but quite frankly, the magnitude of the turnaround was a very pleasant surprise. Such a large increase in lodging demand suggests a return of pent-up travel that did not occur in 2009 because of budget constraints, plus the real hotel demand growth attributable to improvements in the long-term economic outlook."

PricewaterhouseCoopers' updated U.S. lodging forecast also says the initial months of 2010 suggest that a sustainable recovery of lodging demand has begun, although it does not expect that operators will have the ability to increase room rates until next year.

"Though this remains a challenging year, the hotel sector's recent increases in lodging demand are brisk, and with improving economic conditions, some operators are ready to re-focus on increasing room rates," said Scott D. Berman, principal and U.S. industry leader, Hospitality & Leisure, PricewaterhouseCoopers.

"Forecasting turning points in hotel market performance is a tricky proposition, largely because of the complications on the supply side of the hotel market," said John B. Corgel Ph.D., the Robert C. Baker professor of real estate at the Cornell University School of Hotel Administration and senior advisor to PKF-HR. "The hotel cycle is a hybrid of the business cycle on the demand side and an endemic cyclical pattern of the real estate market on the supply side. The shape of hotel market movements over time begins with the connection to the business cycle, but then takes its final form as the result of the considerable time required to construct new hotels to be built in response to increases in hospitality demand. Therefore, the market tends to 'hang' for a lengthy period at the peak until construction accelerates. Conversely, the market 'hangs' in the trough because hotels are not demolished simply because demand is weak."

While news of growth on the top line is encouraging, a series of factors contribute to a projection of continued declines in unit-level profits. PKF-HR forecasts U.S. hotel occupancy levels to increase 3.4% in 2010, but average daily room rates (ADR) are projected to drop 1.6%. The increased number of guests will require hotels to incur additional operating costs, such as housekeeping staff, laundry, guest supplies and energy consumption. Meanwhile, on average, guests will be paying less to rent their rooms.

"Unfortunately, the composition of hotel revenue growth we forecast for 2010 is not very profitable," Woodworth said. "This is consistent with the pattern we have seen coming out of past industry recessions. Price increases lag demand growth. Greater profits lag increases in revenue."

Constrained Supply

PricewaterhouseCoopers' quarterly lodging forecast is based on an updated macroeconomic forecast from Macroeconomic Advisers LLC that expects real gross domestic product (GDP) growth to be above its long-term average, but below the typical growth expected after a deep recession. Macroeconomic Advisers expects GDP to increase 3.5% in 2010, followed by a 3.9% increase in 2011.

The current slowdown in hotel construction activity is a key element in the foundation for recovery in operating performance of existing hotels, according to PricewaterhouseCoopers. The pace of new construction starts fell from 134,000 rooms in 2008 to 47,000 in 2009, and most recently to a pace equivalent to approximately 29,000 rooms annualized through the first quarter of 2010. This sets the context for progressively slower supply growth of 1.9% and 0.4% in 2010 and 2011, respectively.

This constrained supply growth, combined with gradual recovery in lodging demand, is expected to result in increases in occupancy levels to 56.6% and 58.2% in 2010 and 2011, respectively. The industry has experienced a more pronounced rebound in transient demand. However, until group bookings pick up, realizing significant increases in room rates in many hotels and markets will be challenging. As a result, PricewaterhouseCoopers forecasts ADR levels to decrease a further 1.7% in 2010, before growth resumes with a 3.5% increase in 2011.

Investors Showing Renewed Interest

"Hotel assets suffered some of the most dramatic pricing declines in the CRE world, and as weak fundamentals and day-to-day leases translated into plummeting NOIs, distress levels went sky-high," Myers said. "CMBS delinquencies for lodging assets are approaching 18%, compared to 6% for office and 13% for apartments."

CoStar Group data indicates that at least a fifth of the hotel deals closed this year have had some signs of distress, including deferred maintenance, or REO, short, or auction sales.

"This has caused a stir in the waters that has potential buyers circling like sharks before a feeding frenzy," Myers said. "But distress is not the only part of the market attracting attention, and expensive assets in New York and other coastal metros have also traded in recent months."

"Investors are no doubt calculating that just as hotel incomes suffered first in the recession, largely due to their one-day lease terms, they will also be at the leading edge of the recovery," Myers added. "Current distress and the potential for an early NOI rebound are a potent combination, a point that has not been lost on the recent wave of hotel investors."

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CMBS Delinquency Rate Jumps 40 Basis Points in May: Rate Now 8.42%
商業貸款抵押證券的拖欠率五月份上漲 40bps：現已高達 8.42%

TreppWire

The delinquency rate for commercial real estate loans in CMBS continued to move higher in May as the monthly rate of increase has demonstrated remarkable consistency.

For seven of the last eight months, the rate of increase in delinquencies has been between 37 and 49 basis points (after backing out the Stuyvesant Town impact in March). The only exception was February of this year when the delinquency rate nudged up only 22 basis points.

Delinquency % >30 Days

May-10	8.42
Apr-10	8.02
Mar-10	7.61
Feb-10	6.72
Nov-09	5.65
May-09	2.77

Overall in May, the percentage of loans 30 or more days delinquent, in foreclosure, REO, or non-performing balloon jumped 40 basis points, putting the overall delinquency rate at 8.42%.

The percentage of loans seriously impaired remains almost in lockstep with the headline number. The percentage of loans seriously delinquent (>60 days, in foreclosure, REO, or non-performing balloon) jumped 41 basis points.

The Numbers

- Delinquencies jump to 8.42% - Increase 40 basis points
- Percentage of loans 30 or more days delinquent or in foreclosure:
  May: 8.42% | April: 8.02% | March: 7.61%
- Delinquency level of 8.42% is once again the highest in history of CMBS industry
- If defeased loans were taken out of the equation, overall delinquency rate would be 8.96%
- Percentage of loans seriously delinquent (60+, in foreclosure,
  REO, or non-performing balloons) at 7.55% - up 41 basis points

Delinquency Status	**%**
Current	91.35
30 Days Delinquent	0.87
60 Days Delinquent	0.61
90 Days Delinquent	3.04
Performing Matured Balloon	0.22
Non-Performing Matured Balloon	0.54
Foreclosure	2.59
REO	0.77

Historical Perspective

- One year ago, the delinquency rate was 2.77%
- Six months ago, the delinquency rate was 5.65%
- One year ago, the rate of loans seriously delinquent was 2.18%
- Six months ago, the rate of loans seriously delinquent was 4.29%

Major Property Types Show Mixed Results

- Industrial properties only major type to post a decrease in the delinquency rate
- Hotel delinquencies jump 129 BPs – now above 18%
- Multifamily rate increases 28 BPs – second highest delinquency rate among major property types
- Office delinquencies approach 6% - up 44 BPs
- Retail rate up 42 BPs - now 6.86%

Property Types **% >30 Days**

	May-10	Apr-10	Mar-10	Feb-10	Nov-10	May-09
Industrial	5.34	5.44	5.39	4.75	3.33	1.71
Lodging	18.45	17.16	16.89	15.65	14.09	3.15
Multifamily	13.34	13.06	13.19	9.87	8.78	5.17
Office	5.81	5.37	4.73	4.33	3.14	1.65
Retail	6.86	6.44	6.03	5.74	4.78	3.14

CMBS Spreads Jump in May- First Losing Month of 2010

CMBS spreads gave back some of the gains that had been booked from January through April. For the first time in 2010, CMBS spreads were wider over the course of the month.

Overall, spreads spiked 70 basis points for the month of May for recent vintage super senior bonds – more for bonds backed by weaker collateral; less for stronger names.

The spread increase comes after a rally that saw levels on super seniors drop about 160 basis points from the beginning of the year through the end of April.

While May was the first losing month of 2010 for CMBS, spread weakness started to appear in late April. The benchmark GSMS 2007-GG10 A4 bonds began the month 315 basis points over swaps. It underperformed the broader market finishing the month 420 basis points over swaps - an increase of 105 basis points.

Weakness extended to Mezzanine and Junior AAA bonds (AM's and AJ's) along with bond further down the credit stack.

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Commercial Loans Scarce
頂級與次級商業地產的貸款難度天壤之別，貸款批准期亦比幾年前延長不少

By Emily Maltby (The Wall Street Journal)

Real-estate prices are enticingly low in many areas of the country, prompting business owners to pursue sweet deals on storefronts, manufacturing facilities and other commercial properties. But because banks remain wary of commercial real-estate loans, landing financing to make such a purchase can be time consuming and tedious.

Compared to peak prices in October 2007, commercial property values are down 42%, according to Moody's Investors Service Inc. Price index reports compiled by Moody's and Real Capital Analytics Inc. show that as of March 2010, the cost of industrial and office space fell 32% in the last two years. Retail space also plummeted 28%.

"There is excess space, which opens an opportunity for small firms," says Bill Dunkelberg, chief economist at National Federation of Independent Business, a Washington advocacy group. "You won't see prices like these for a long time."

Some owners are heeding the call. Randy Scheidt, who heads the legislative subcommittee of the National Association of Realtor's commercial division, says that he is noticing business owners "feeling more comfortable with the future" and weighing whether "such an acquisition would be fiscally prudent."

But the tight credit environment is making it difficult for entrepreneurs to secure those loans. "What is so different today versus 2006 is the underwriting scrutiny," says Mr. Scheidt. "It's not unusual for [the loan process] to take an additional 30 to 60 days."

Eliot Boyle, owner of U.S. Metals LLC in Denver, decided last year to move his sheet-metal roofing and siding business to a new facility. Lease rates in the area were steady, but commercial spaces for sale on the market were falling. "We thought this was a good time to take advantage of how well we were doing and how poorly the real-estate environment was doing," he says.

After preparing his business plan, he visited five banks and was turned down by four. The remaining lender, Bank of the West, which had previously worked with Mr. Boyle, issued him a Small Business Administration loan to buy a $680,000 building. The price for the space —a 50%-larger facility—had dropped 40%.

The process took longer than anticipated and closed one day before the scheduled move. The delays, says Mr. Boyle, stemmed from the bank's requirement of additional environmental reports and other due diligence.

"All those appraisals showed that…if the bank needs to move fast and has to liquidate the building quickly, it can do that," says Mr. Boyle.

"The approval timelines are really not that different than they were in the past," says Jim Cole, spokesperson for the San Francisco-based Bank of the West. "Appraisals take the same amount of time and, as always, environmental reports can take longer than expected."

Many banks taking extra precaution before issuing commercial mortgages are reeling from those kinds of losses and are wary of putting more of those loans on their books. According to a Real Capital Analytics' study of Federal Deposit Insurance Corp. and bank data, the default rate for commercial real-estate mortgages rose to 4.2%, amounting to $45.5 billion, for the first quarter of 2010. That's the highest default rate since 1992.

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Entrepreneurs Make Use of Odd Spaces

Commercial real estate loans have really hurt community and regional banks, which are key lenders to small businesses. They hold just more than half of bank-issued commercial mortgages and their portfolios are likely to hurt for some time. The default trend is expected to continue through 2011, when it may hit 5.4%, before abating, according to Real Capital Analytics.

Although the commercial real estate market has shown some tentative signs of life in the early months of 2010, there is little transparency about the value of many properties, says Sam Chandan, chief economist at Real Capital Analytics. Appraisals help determine price, he explains, but commercial property values are supported by other transactions in the area.

To overcome the credit challenge, experts say entrepreneurs can make themselves more attractive by submitting sound financial plans that back up their income projections and intent to repay the loan. Borrowers with solid credit histories and established bank relationships are more likely to get a loan.

Mr. Chandan says newer businesses can still land financing if they can bring equity to the table, especially if the borrower wants to purchase a vacant property that the bank is holding. But, he cautions, "lending standards have tightened considerably, so it will be challenging."

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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	4.750%	4.939%
• 30-Year Fixed FHA	4.875%	5.630%
• 15-Year Fixed	4.250%	4.573%
• 5-Year ARM	3.625%	3.720%
• 5-Year ARM FHA	3.500%	3.266%
Larger Loan Amounts in Eligible Areas – Conforming and FHA		
• 30-Year Fixed	4.875%	5.012%
• 30-Year Fixed FHA	4.875%	5.575%
• 5-Year ARM	4.000%	3.806%
Jumbo Loans – Amounts that exceed conforming loan limits		
• 30-Year Fixed	5.500%	5.643%
• 5-Year ARM	4.750%	4.082%