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## The $8 Billion Question: What Impact Will Obama's Order to Reduce Government Space Have on CRE Markets?
## 奧巴馬推出政府削減地產費用計劃：至 2012 要減少 80 億美元的成本

*By Andrew Deichler (Costar)*

Last week's memorandum from President Obama directing federal agencies to eliminate excess space and reduce real estate-related spending while moving toward a clean energy economy has raised many questions over the impact the new initiative is expected to have on the commercial real estate market.

The government owns or leases 354 million square feet in more than 2,200 localities across the country, according to the General Services Administration (GSA). Under the new plan, which the president expects to generate $8 billion in savings by 2012, all federal departments and agencies are to evaluate their portfolios and strip away any excess properties, as well as make better use of the real estate assets that they have.

Obama called for the federal government to take a more cost-effective, asset-management approach to managing its real estate, identifying and eliminating surplus assets; terminating or not renewing leases that are not cost effective; consolidating operations when possible; increasing occupancy in current facilities through better space management and alternative workplace arrangements; and identifying offsetting reductions in inventory when new space is acquired.

These efforts are expected to produce approximately $3 billion in cost savings by the end of fiscal 2012, according to the president's memo. Additionally, about $5 billion could be saved as a direct result of reduced operations and maintenance from consolidation efforts related to the Department of Defense (DoD)'s Base Realignment and Closure efforts, which are expected to generate $9.8 billion in total savings over the next three years. The president also noted that agencies are prohibited from expanding data centers further, and must draw up plans to reduce those centers over the next five years. Proposals are due to the Office of Management and Budget (OMB) by August 30.

“For decades, the federal government, the largest property owner and energy user in the United States, has managed more real estate than necessary to effectively support its programs and missions. Both taxpayer dollars and energy resources are being wasted to maintain these excess assets,” the president wrote in his June 10 memo.

Citing data centers as an example, the president explained how many of these excess properties are not operated efficiently, which has resulted in wasted funds and excessive pollution. In the past 10 years, President Obama noted, the private sector has made strides in reducing its data center footprint by implementing new technology. At the same time, the government has increased its number of data centers, consuming more energy and spending more money on real estate and operating costs.

The Director of the OMB, along with the Administrator of General Services and the Federal Real Property Council, are working on an outline for agencies to comply with the president's memorandum.

**The Big Picture**

GSA said it expects to primarily be used in an advisory role, assisting other government agencies in evaluating their real estate operations and making appropriate reductions. "We're being tapped to help other agencies better manage their portfolios," said Caren Auchman, press secretary.

"There are a lot of federal agencies that do not necessarily fall under GSA's authority, but when the president actually directs agencies to do something, some of that falls under the GSA role as being part of the arm of the management of the executive branch, " added Ed Feiner, FAIA, Perkins+Will principal and a former chief architect of GSA. "There are two aspects of GSA - one is the Public Building Service, which is actually the people that own and manage or control the leases of space, and then there's the broader responsibility of the administrator's office, for real property policy for the entire federal government."

Feiner believes that, since this is an executive order to reduce space, it will likely affect every agency in the system. However, he was quick to note that it would likely be implemented differently in each agency.

"This is not an easy task," Feiner said. "If it's done with a cleaver or a mallet, it does not lead to success. It has to be done with very strong planning, programming and design input in order to be successful."

Norm Miller, vice president of analytics for CoStar Group, noted that if GSA decided to drop 30% of its leases that are due to expire over the next nine months, it would save approximately $197 million, nationwide, which leaves a lot more to hit the $3 billion target. Additionally, most government office leases are long-term, and attempting to renegotiate rent on a lease that still has 5 to 10 years of term remaining may be challenging.

Therefore, he said, the government could be looking to cut costs in different ways. Miller noted that sale-leaseback transactions could be ideal for the government. With interest rates low, and the fact that the government is viewed as a "golden credit tenant" that typically commits to long-term leases, selling government-owned assets and leasing them back could provide the boost in savings targeted by the president.

Additionally, the costs associated with human labor generally run about 10 times what rental figures do, so reducing the federal workforce by 3% could save as much as downsizing space by 30%, Miller said.

**The Effect on the DC Market**
Of course, the market likely to be most affected by the directive is Washington, DC, which has long benefitted from large government office leases.

About two weeks ago, GSA signed a 285,000-square-foot lease for the Department of Veterans Affairs in the Mount Vernon Triangle area. The DC market, one of the most expensive in the country, thrives on major deals like these. The memo has raised concerns that major new government lease-ups such as this could become a rarity.

GSA occupies about 100 million square feet in the DC area, said Michael McGill, spokesman. That consists of about 55 million square feet in leases and 45 million in owned space. Of that leased space (about 850 individual deals) approximately 10%, or 5 million square feet, expires every year.

When GSA signs a lease for a tenant agency, there is a provision that allows for the tenant to terminate its lease before the full term, as long as it provides a 120-day notice. In these instances, GSA then attempts to find another agency to occupy the space.

A recent example is the DoD, which is vacating approximately 5.5 million square feet in Northern Virginia. McGill explained that GSA is currently in negotiations to get lease termination dates to sync up with the actual expiration dates.

For the owned space, the GSA's plan includes stripping away underperforming assets, McGill said. Dormant buildings such as 7550 Wisconsin Ave. in Bethesda, MD, a former GSA building, are in the process of being sold off. However, when possible, GSA is converting these assets for other purposes.

Federal Office Building 8 at 200 C St. SW in the District of Columbia, a former lab building once used by the FDA, is now being converted to office space. The Department of Health and Human Services (which has an office very close by) and the House Committee Staff are both slated to take occupancy in the building once renovations are complete. Another example is the Old Post Office in Federal Triangle. Though currently in use, GSA has a plan to renovate the building and move-in private sector tenants, McGill said.

**GSA currently has a 1.7% vacancy rate in DC.**
According to an analysis of CoStar information by Miller, only about 2.65% of total government space in the DC metro area is due to expire between now and 2012. Again, he noted that sale-leasebacks would likely provide a better option for the government than attempting to renegotiate leases that are not due to expire for several years.

While there has been some uncertainty in the DC market since the president's memo was released, the overall impact might not be negative. Feiner explained that he worked on several plans like this during his time with GSA. Those initiatives often were a boon to real estate in various areas.

"Having gone through several of these space reduction exercises during my 24 years at GSA, there are strange things that happen," said Feiner. "In some cases, as you consolidate space, it really creates even more opportunities for the leasing and developer markets to provide additional space in some places as they're reducing space in other buildings."

Feiner gave an example of an agency that occupies multiple buildings but doesn't use a portion of its space due to workforce reductions. The government eventually takes note of the excess space and attempts to consolidate the agency into one location, but finds that it doesn't fit. So the government is then forced to seek out different leases in other buildings. "It doesn't mean that the (leasing) activity is reduced," he said. "Chances are, the activity is really increased."

**The Environmental Impact**
The directive to reduce the amount of occupied space will only have a positive impact on the environment if agencies are careful about what types of buildings they consolidate into, Feiner said. Often, a new building can prove to be the best option for an agency, since retrofitting an office that is currently being utilized creates multiple problems.

The question of "how can an agency retrofit a fully occupied building?" comes to mind. And of course, there's the cost issue. Historic buildings in particular, which the government often utilizes, can prove to need a massive overhaul.

"We're not talking about putting in storm windows or tuning up the furnace," Feiner said. "These are major reductions."

But perhaps it could be simpler than one would think. Green building expert Peter Pfeiffer, FAIA, president of Barley & Pfeiffer Architects, feels agencies just need to be a bit more practical.

"I am amazed at how many federal buildings I see with the lights left burning at night," he said. "Light fixtures put out heat (3.4 BTU's per hour for every watt being burned), so excess lighting also makes for significant amounts of excess air-conditioning - which is the single biggest load in most buildings."

Pfeiffer elaborated by saying that if a typical floor in an office building has about 300 fluorescent light fixtures in the ceiling at about 100 watts, it comes out to 30,000 watts of energy burned. 30,000 watts at 3.4 BTU's per watt is

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102,000 BTU's of heat per hour being put out. At 12,000 BTU's per ton, this is the equivalent of about 85 tons of air-conditioning used per hour.

If the average house uses about 3.5 tons of air-conditioning, then the average floor in an office building uses the equivalent of about 24 houses worth of air-conditioning just to fight the heat lights put out. All that energy could be saved by simply turning the lights off.

## Impact of CRE Distress Varies Widely Market to Market
## 問題商業地產的普遍性與地區大有關係：洛杉磯都市地區的貸款拖欠率只有不到 4%

*By Mark Heschmeyer (Costar)*

While the amount of CMBS loans falling delinquent and/or defaulting continues to escalate, doubling almost every six months, the damage inflicted on property values and deal volumes varies widely across local cities. Some metro areas are being ravaged while others are being spared, according to an exclusive analysis of local distress compiled for CoStar Group.

In Lansing, MI, for example, where CMBS loans back more than 50 properties, nearly 1 in 5 loans are in the process of defaulting. But in Wichita, KS, or San Luis Obispo, CA, where CMBS loans also back more than 50 properties, the default rate is less than 1 in 100.

The data was compiled exclusively by Investcap Advisors LLC and QuantumRisk LLC for CoStar. Investcap Advisors provides surveillance data on the CMBS market and QuantumRisk is a registered investment advisor in Colorado. The two firms analyzed more than 85,000 properties backing more than 52,000 loans and developed a probability of default ratio and loss severity calculation for 405 U.S. markets.

Even looking at the 25 markets with the most properties backed by CMBS loans, the disparity between individual markets is vivid.

For example the hardest-hit major metro areas of Las Vegas, Phoenix, Detroit, Orlando, Tampa and Atlanta all show probability of default ratios of 10% to 14% and loss severities on loans of 8.6% to 15.4%. While the major metro areas of Orange County (CA), Washington DC, Boston, San Diego, New York, Los Angeles and Seattle, show defaults and losses are running at less than 4%.

In a tandem analysis of distressed property sales compiled by CoStar Group, there is clearly a direct correlation between the results. The percentage of distressed property sales to total sales in the last five quarters is highest in the worst performing CMBS markets and lowest in the better-performing markets.

In Atlanta, Orlando, Tampa and Las Vegas, distressed property sales account for 27% to 44% of total sales activity. However, in New York, Los Angeles, Washington DC and Boston, distressed sales account for just 6% to 11% of the activity, according to the CoStar analysis.

The same discrepancy that shows up between markets across the country also shows up within each individual market.

Distressed Office Properties Widespread

While the tidal wave of troubled office assets that many investors hope for has yet to flood the market, distress has been rippling through the system. In fact, distressed deals accounted for nearly 19% of U.S. office transaction volume from the beginning of 2009 through March 2010, according to CoStar Group data.

"By and large, these distressed transactions have been in suburban submarkets," said Stephanie Hession, a real estate economist with CoStar Group. "Since the beginning of 2009, suburban assets accounted for 63% of total office sales volume but 75% of distressed volume. CMBS delinquencies show a similar trend, with the delinquency rate for suburban office loans at about 7.5% versus a little more than 4% for CBD offices."

"There are several reasons why CBDs are dodging distress better than the suburbs," Hession explained. "CBD office submarkets have structurally lower vacancy rates, at 11.5% in the first quarter, versus 13.3% for the suburbs. Construction has been much heavier in the suburbs, with the suburban office inventory increasing by 7.4% over the past five years, versus a 2.6% increase in the CBD inventory. Because suburban landlords have more competition from new product, it is harder for them to retain and attract tenants."

In addition, Hession said more valuable properties (which are often CBD towers) also have lower delinquencies; so stricter underwriting and more workouts for larger loans may also be a factor in the lower CBD delinquency rate.

"While more distress will emerge in the coming years as net operating incomes deteriorate - in both CBD and suburban submarkets - investors that need to place capital and are looking for bargains (and willing to take on a bit more risk) should check out suburban submarkets," Hession said. "With more distressed assets and less competition from foreign and institutional buyers, they will present more opportunities to buy on the cheap."

While the data and numbers tell a story of local distress across the U.S., they don't tell the whole story. For what distress looks like from the 'front lines' and how it is impacting commercial real estate investment and brokerage activity, we turned to professionals across the country. Their comments that follow reveal more at the gut level of what distress feels like.

A Classic Bifurcated Market

Ironically, the distress that my firm is encountering lies is the fact that purchase prices and investment returns (cap rates) for stabilized trophy and class A office buildings in the DC CBD that our German and Swiss clients want have not only not gone down but have actually gone up in certain cases. This is making it extremely difficult for us to get the returns our clients need, especially closed-end fund clients.

The situation is not quite so difficult for open-end funds because they can put a low yielding, brochure-quality trophy in a fund together with higher-yielding properties already in the fund and blend the returns to an acceptable level.

There is simply too much money chasing really good office properties in the DC CBD (and in the CBDs of NYC and Boston, in particular) and, therefore, the few really good properties that are available are very expensive with yields only in the 5% and 6% range. Our clients need returns in the 7s.

What we have is a classic bifurcated market. Some deals are available on certain stabilized B- and C buildings in the CBD and A and B buildings in the suburbs, as long as one's clients want those kinds of properties.

In regard to other cities, we have done deals for clients as far away as Miami, and last year in Boston, where we did get an acceptable return for a client on a Class A waterfront building in the financial district. But quite recently there was a feeding frenzy for a Class A office building in Boston and the winner of that deal had to buy on a return in the 6s. The deal we did in Boston last September was considerably higher than that, but that was 'so last year.' "
Benjamin B. Lacy, Chairman, Lacy Ltd., Washington, DC

Foreign Investment… Manhattan's Ace in the Hole

Various sectors of Manhattan real estate have fallen approximately 40%-60% from the 2007-2008 peak. Real estate sales activity has likewise plummeted. If you live or work in Manhattan, unless you've been living in a cave, you're now quite familiar with all of the "For Lease" signs that traverse the city's landscape, and in particular Madison Avenue.

As we start to look around the corner towards a "slow and prolonged recovery," or as some say "a jobless recovery," it is important to revisit some of the economic realities that are peculiar to the Manhattan marketplace. Wall Street firms will eventually rebound, and with that increasing residential prices are likely to ensue. Slowly, stalled condo projects will transform themselves into rental apartment complexes, and vacant stores will gradually become occupied…. albeit at significantly reduced rental rates.

Furthermore, due to the weak dollar, international capital is now beginning to flock to the U.S. in ways reminiscent of the early 1990s when Japanese and European investors flooded the Manhattan office markets. A Central Park West penthouse unit recently sold for $37 million to a Russian investment fund; and an Israeli fund purchased the HSBC bank's headquarters building in Manhattan for $330 million.

Russian investors have been particularly active with Mikhail Prokhorov purchasing an 80% share in the New Jersey Nets basketball team and a 45% stake in Atlantic Yards, a real estate development in Brooklyn where the team is expected to play within the next few years. With real estate transactions crossing international borders, foreign investment may just well be Manhattan's ace in the hole towards recovery.
Jon Fischer, Managing Director, NAI Global, New York, NY

The Funds Are Not Letting Assets Hit Bottom

I am a commercial land buyer in the Dallas/Fort Worth metroplex. I was looking forward to the imminent buying spree that I was sure would surface this year. In the late '80s, we were spoiled by many 10-cents-on-the-dollar opportunities, but this down cycle is very different.

I have made three earnest efforts to acquire some so-called "distressed land" this year. I have been unsuccessful. My favorite was a lender-owned 12-acre multifamily parcel, I was sure I would be the logical buyer for its acquisition. I was the first one on the scene and owned property in the immediate area. I felt I knew more about the submarket than anyone, I needed no financing and I could move fast but… I came in 6th out of 12 offers.

Turns out there is so much competition out there from "distressed" property funds, that they are crawling all over each other just to buy something. Every big shot REIT, investment bank, hedge fund - (you name it) has a fund for acquisitions of "distressed" properties. Each fund has people who are hired to acquire this type of asset and the competition is fierce.

The multifamily tract sold for very close to the lenders asking price and for all cash, which was about 25% below where the asset was there years ago. I told one of my listing brokers to put the word "Distressed" on one of our marketing packages and the funds would probably break the door down. The funds are not letting the assets hit bottom. I don't think we are going to get to see the glory days of 10 cents on the dollar in this cycle.
CW Kendall, Owner, Kendall Land Corp., Richardson, TX Showcase Listings

2 Out of Every 3 Deals Will Be Distressed

As you are keenly aware, Florida is one of the leading markets for distressed real estate. As such, the majority of investors are looking for "distressed" deals because of the perception of extremely discounted prices.

Transactions in 2009 were few and far between, but we have seen a modest increase in activity thus far in 2010. This is in part because the groups that are getting deals done are typically able to come in with better terms (i.e., 15-30 days of due diligence, followed by 15-30 days to close) and have the ability to close all cash. Many of these types of deals usually take place with an owner that is being foreclosed on or a lender that already owns the property.

There are other groups that are choosing to purchase the non-performing note, with an eye on getting a hold of the underlying real estate. We have closed a couple of note sales thus far this year and one of them has already produced a "friendly foreclosure" with the investors taking title to the real estate.

While there are no hard and fast rules, it seems like these transactions are getting discounts of 40%-60% of the face value of the note depending on the property type and condition. We have had many groups contact us regarding the purchase of notes in 2010 versus 2009 and expect this to continue moving forward.

Our business model moving forward anticipates nearly two-thirds of the transactions we will complete will be distressed in some way, shape or form.

Based on the conversations I have had when traveling across the country to meet with bank executives and executives from special servicers, it seems like the general consensus is that dealing with distressed properties will account for the majority of transactions for the next 3-5 years.
T. Sean Lance, Managing Director, President-Troubled Asset Optimization, NAI Tampa Bay, Tampa, FL Showcase Listings

Distressed Properties Are Fringe Properties

Most, if not all of the distressed properties, are fringe properties in tough submarkets where the risk is high. All offerings are full of deferred maintenance, non-performing tenants in some cases, and are in competitive areas, again, very high risk. I am often asked, "Do you have any well located distressed deals?" "Yeah," I answer, "I keep them next to my heard of unicorns."

Apartment owners I cultivate for the list side have suffered in their operations. These last six months have been the leanest for operations in my six-year career as a broker. So many owners are not making money, can't keep good tenants, fight the concessions and rising expenses, and are forced to lower rents because the investor who bought the distress deal down the street is at a lower basis and trying to get full occupancy.

This summer is critical and as we go into the busy leasing season, we hope to emerge in the fall with a better trend than the trailing six months. As I push value for owners who feel it is time to exit, I have to price a deal with the market constraints we all face: higher cost of debt, lower amortization schedules, more money down, higher debt service coverage, and find that yield is the most important factor, plus room for upside. Second is the push on my part to take to market offerings that have some form of assumable debt or seller financing because the loan dollars are on the table and not much confidence is placed now with lenders. Seldom will a seller go under contract with a financial contingency.

Buyers are everywhere, but most with experience are holding out for better locations and not getting sucked in on the low price per pound distress in the market. It is still a game of leverage, so many would prefer not to shoot all of their bullets on a deal.

As a listing broker, I help owners exit. If it is a distressed deal that has been repositioned and put out for sale, it is not well received no matter how attractive the return is.
Brian Janak, Senior Associate, National Multi Housing Group, Marcus & Millichap, Houston, TX

No Confidence and No Stomach for Risk

Basically properties are distressed because there are no tenants to lease up vacant space. It is compounded by owners whose other sources of income have also been hit and reduced or eliminated by the recession. Rents may

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have to be deferred or adjusted temporarily to keep tenants from failing completely, but loans, taxes, insurance, utilities, and other operating expenses are not so easy, if not impossible, to defer or adjust.

What good is a distressed property that can be acquired at a low price, if there is not enough cash to invest to buy it, impossible financing requirements, and no tenants to occupy it anyway?

Needless to say investment activity is minimal, as buyers and sellers are too far apart on price and terms, and no one is confident enough to take a risk because the recovery is still nowhere in sight or no one knows if the recovery signs are true or false.
Wesley K. Firkin, WTA Real Estate Management Co., Philadelphia, PA Showcase Listings

No Room for Old School Ideology
In San Diego County the current market is not getting better in terms of filings, however, we are seeing more commercial properties either having the NOD being filed by the lender, the note going to Trustee Sale (NTS), and eventually the note either going back to the bank as OREO. In the time frame of Jan. 1, 2009, to Dec. 31, 2009, there were 31 properties, which had a NOD/NTS or became OREO. Of the 31, 13 are OREO. In the time frame of Jan. 1, 2010, to June 14, 2010, there have been 240 NOD/NTS or became OREO. Of the 240, 55 are OREO.

We are getting busier every day. The investors we deal with are predominantly focused on distressed assets, whether it be pre foreclosure note sales or REO. I would say that the market for non-distressed investment is very soft. The asset has to be in "hot water" to really get a lot of interest from the people we deal with.

We study NOD's, NTS and call banks! We don't deal with borrowers who need to get bailed out; we go straight to the decision makers. In today's market, as you know that is the banks or the FDIC. This is where the brokerage business has changed in the past five years. Guys that are resistant to this new way of getting business are going to get left in the dust. There is no room for old school ideology. There is going to be a ton of money made and lost over the next five years and guys that are resistant to change are going to get left out.
Steven C. Martini, President, QualityFirst Commercial, San Diego, CA

The Best of Educations… Reeling and Writhing
Political uncertainty is killing investment activity for distressed real estate. This is not, as some pundits explain, because investors are still waiting for a bottom. Questions of how taxes and proposed regulations will impact real estate financing and investment returns have virtually closed down transactions. There is simply no way to construct financial models without knowing what Congress will do in efforts to raise taxes to help reduce the huge deficit. Washington's mathematical rationale for taxing the struggling real estate industry is based on the Mock Turtle's (Alice in Wonderland) four branches of arithmetic - Ambition, Distraction, Uglification and Derision.
Susan Lawrence, President, Real Estate Strategies Inc., Winter Park, FL Showcase Listings

Lurking in the Shadows
With respect to distress in the East Tampa industrial submarket points to the amount of shadow space, or space that is not being utilized by a tenant but is not actively on the market. This figure could be as high as 10% and represents another variable in the commercial real estate recovery, both in the Tampa Bay market and nationally.
Jeff Lamm, Director of Leasing, Taylor & Mathis of Florida, Tampa, FL Showcase Listings

The New Optimism: We're at the Bottom, Unless…
To a large degree, beyond the numbers, it's perception. As long as the perception is that the market is dropping, investors are hesitant to invest. Once the perception changes and people believe that we have bottomed out, investors will return. When asked where the markets at, my reply is, "It looks like we have reached the bottom, unless we find a new bottom."
Larry D. Schnepf, Principal, Schnepf Ellsworth Appraisal Group, Mesa, AZ

Persistent Uncertainty
Our research backed by conversations with active commercial brokers suggest the Chicago commercial markets will continue to suffer due to persistent uncertainty in direction for the buyers and sellers, tenants and landlords, driven by weak fundamentals and constrained liquidity. The general economy must improve which means job creation must resume.
Anthony J. Uzemack, Principal, Appraisal Systems LLC, Park Ridge, IL

The New Vocabulary for the Brokerage Business
Due to wild speculation, overbuilding, and overleveraging of all property types in the Phoenix market, the majority of properties will change hands in the next five years. On an individual property basis, the how and when are the questions that are difficult to answer. The great news is that we are seeing the great divide of 2009 between lenders and investors narrow.

The economic freefall of late 2008/early 2009 has subsided. Rental rates and vacancies have slowed their decline, cap rates have stabilized and the marketplace is beginning to come to a consensus of values. Lenders can assess what losses they can take and investors no longer feel like they are trying to catch a falling knife.

Real estate transactions, once a simple procedure of negotiating between buyer and seller, are now a convoluted process with countless decision makers and routes to navigate toward the ultimate goal of acquiring a property. From a simple escrow process to a landscape riddled with note purchases, short sales, trustee sales, receivership sales, property auctions, note auctions, portfolio note sales, loan workouts, loan to own and equity partnerships, this is a new vocabulary for most and consideration of new strategies that must implemented toward the ultimate goal of acquiring a specific asset.

And it is not so simple as to be able to pay the most for an asset. Timing and knowing the appropriate approach for a bank, receiver, special servicer, master servicer, life company, note purchaser, or borrower can be the difference between an opportunity and yet another closed door.

We are in the midst of a period of great opportunity for the well-capitalized and entrepreneurial investor. Though few loans and properties are transacting, those that are trading are trading at a fraction of past values.

At the peak, it was inconceivable how the market could experience a downturn. Now, at the bottom, it seem implausible that we will ever see that kind of pricing again - but we always do! This will create unparalleled buying opportunities for the contrarian investor who is not relying on a precise financial model, but knows whether we are at the bottom, near the bottom or past the bottom. The long-term prospects for commercial real estate are promising.

There is plenty of activity, an abundance of capital, and a limitless supply of buyers. Unfortunately at the moment there is a constrained supply of deliverable inventory. Many investors with access to a few million dollars expected banks and lenders to cater to them, but lenders to date have held their ground. As a result, we have actually seen an increase in values to a degree for actionable notes or properties. Though the inventory will exponentially mount, it will be absorbed quickly.
Ari Spiro, President, Orion Investment Real Estate Solutions, Scottsdale, AZ

The 3 Most Important Words in Real Estate
Growth markets such as Phoenix experience higher highs and lower lows than other major commercial real estate markets, which translates into zero sum game. A winner for every loser!

Three most important words in real estate become "Timing, Timing, and Timing". No one wants to catch a falling knife. Nothing is the first thing that happens in a distressed CRE market. No sales, no new leases, no new development. The real estate growth complex is replaced with the mentality of cut personnel, costs and debt to the bone to allow them to travel through the canal of carnage.

Survival in CRE requires a nose for identifying new opportunities, finding new clients, creating new services to bridge over the cyclical nature of our industry. Locals are the last to get back in the game.
Dan Colton, Principal, Colton Commercial, Tempe, AZ

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**Market Trend: Los Angeles's Deliveries and Construction in Q1 2010**
**市場快訊：2010 年第一季度洛杉磯完工的商業地產**

*(CoStar)*

During the first quarter 2010, four buildings totaling 179,269 square feet were completed in the Los Angeles market area. This compares to 11 buildings totaling 570,162 square feet that were completed in the fourth quarter 2009, 18 buildings totaling 1,699,197 square feet completed in the third quarter 2009, and 698,255 square feet in 22 buildings completed in the second quarter 2009.

There were 1,495,377 square feet of office space under construction at the end of the first quarter 2010.

Some of the notable 2010 deliveries include: Campus at Playa Vista - Building Three - Phase I, an 82,112-square-foot facility that delivered in first quarter 2010 and is now 4% occupied, and Campus at Playa Vista - Building Four - Phase I, a 73,489-square-foot building that delivered in first quarter 2010 and is now 100% occupied.

The largest projects underway at the end of first quarter 2010 were Red Building - West, 750 San Vicente Blvd., a 211,426-square-foot building with 0% of its space pre-leased, and Red Building -- East at 750 San Vicente Blvd., a 203,568-square-foot facility that is 0% pre-leased.

**Outlook for Major Sectors of Commercial Real Estate REITs**
**房地產投資信託基金預測：公寓最早回升，辦公樓趨穩定，工業倉庫仍下滑，購物商場的基礎漸回升**

*Edited from Costar article by Randyl Drummer*

Synopsis of factors influencing Fitch's outlook for major CRE sectors:

- Multifamily: Fitch sees a visible recovery in apartments, as well as solid liquidity and capital markets access. Fundamentals will bottom out by the latter half of 2010 and the downward grind of negative same-store net-operating income growth and occupancy declines is expected to subside by the end of the year. Supply won't be a major obstacle to recovery, with the single-family housing and condominium construction boom now over in Sunbelt markets such as Phoenix, Southern California, and South Florida. According to CoStar Group, Inc. data cited by Fitch, supply will total just 44,000 units for the top 54 U.S. markets for all of 2010, and new deliveries will be minimal through 2012. CoStar data shows asking rents have dropped by more than 7% so far in the current cycle and are expected to drop another 3% next year as landlords redouble efforts to improve occupancy. Declining rents will continue to foster declines in NOI into early 2011.

- Office: The sector is stable despite weak fundamentals and rising vacancies which reached 19.6% earlier this year across 54 major markets tracked by CoStar, up from the trough of 14.6% reached in 2007. Increases in vacancy are beginning to slow due to fewer space givebacks and modest increases in office employment. However, reversing negative rent and same-store NOI trends will require a big increase in office jobs -- not expected over the near term. Rents in CoStar's major 54 markets dropped by 8.3% in 2009 and an additional 1.4% in the first quarter and are expected to continue falling over the year. With little new supply coming on line, the office sector will enjoy a strong recovery. However, with unemployment at stubbornly high levels, there's significant risk that fundamentals could continue to slide for quite some time.

- Industrial: Fitch's outlook for U.S. industrial REITs is negative due to higher debt and sagging cash flows from downward mark-to-market pricing on expiring leases. A modest rebound in occupancy due to limited new supply and improvements in capital markets access and liquidity will help matters, but growth in same-store NOI may not occur until after 2011 as it remains a tenant's market. However, with construction levels at historic lows, Fitch expects vacancy rates to improve. National vacancy rates for warehouses are between 13% and 14%, but rising demand for goods could spur warehouse demand. Industrial REITs should also benefit from property and asset management fee income, as well as earnings from funds and other private capital vehicles. Acquisition activity has increased in the sector, which may allow REITs to monetize their portfolios. Several industrial REITs have improved liquidity by tapping capital markets in 2010s.

- Retail: Fundamentals are beginning to turn in this sector, with flat to positive same-store NOI and occupancy stabilizing for Fitch-rated REITs for the first quarter. Retail REITs repaired their balance sheets and improved capitalization, liquidity and financial flexibility during a difficult 2009. They raised almost $2 billion in unsecured bonds, $202 million in equity and tendering for about $100 million of near-term maturing bonds last year, with another $2.7 billion of unsecured bond issuances, $300 million of equity issuance, and tenders for nearly $2.4 billion of maturing bonds so far this year, further bolstering liquidity and leverage. The stronger financials will help retail REITs weather a slow economic recovery. Despite a recent pickup in shopping and little new development, rent and NOI likely will remain pressured by high

vacancies through 2010. Store closure risks remain high for certain tenants, hurting the ability to raise rents. NOI will remain flat to slightly negative for the larger mall and freestanding retail REITs, while strip center-focused REITs will be flat to negative by as much as 6%.

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**High Default Rate Seen for Modified Mortgages**
重組貸款的拖欠率高達 **60-70%**

*By James R. Hagerty (WSJ)*

Fitch Ratings Ltd. forecasts that most borrowers who get lower mortgage payments under a federal government program will default within 12 months.

Among those with loans that aren't backed by any federal agency, the redefault rate within a year is likely to be 65% to 75% under the Obama administration's Home Affordable Modification Program, or HAMP, according to a report to be released Wednesday by Fitch, a New York-based credit-rating firm. Almost all of those who got loan modifications have already defaulted once.

Diane Pendley, a managing director at Fitch, said the failure rate was likely to be high largely because most of these borrowers were mired in credit-card debt, car loans and other obligations.

The Treasury Department has said that among people who have been given loan modifications under HAMP, the median ratio of total debt payments to pretax income is still 64%. That often means little money is left over for food, clothing or such emergency expenses as medical care and car repairs.

"The borrower remains in a very high-risk situation," Ms. Pendley said in an interview. "The other debts don't go away."

A Treasury official said HAMP "is making a real difference in the lives of hundreds of thousands of homeowners." He said the government has reduced the risk of redefault by offering financial incentives to borrowers who remain current on loan payments.

Fitch based the redefault forecast on the performance of loans that were modified in the first quarter of 2009. Those modifications were done outside of HAMP, which took effect later in the year. But Ms. Pendley doesn't expect a major difference between the results of HAMP modifications and those made under lenders' programs.

Even if two-thirds of the loan modifications fail, Ms. Pendley said, that doesn't mean HAMP is a failure. "If you can save one-third of the borrowers, I think it is worth the exercise," she said. She also said the HAMP program, announced in early 2009, had provided a basic outline for loan servicers to follow in modifying loans. Loan servicers, often owned by banks, collect payments and handle foreclosures. Previously they were "all over the place" in their methods for dealing with foreclosures, Ms. Pendley said.

At the end of April, about 295,000 households were benefiting from long-term modifications under HAMP, which typically involves cutting the interest rate as low as 2%, according to the Treasury. Another 637,000 households were in trial modifications, under which they need to show they can make their new, lower payments consistently and provide documents proving they are eligible. Under the $50 billion HAMP program, the federal government provides financial incentives to borrowers, loan servicers and mortgage investors for modifying loans.

Andrew Jakabovics, an associate director at the Center for American Progress, a Washington think tank with ties to the Obama administration, said results of HAMP so far were mixed. Borrowers continue to complain that it often takes months, and sometimes more than a year, to get decisions from servicers on whether a loan can be modified on a long-term basis. Mr. Jakabovics said the program would work better if the government dealt directly with applicants for HAMP and decided which ones qualified, rather than delegating that function to servicers.

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But Mr. Jakabovics said he didn't expect major changes in HAMP, which is scheduled to remain in effect through 2012. "For better or worse," he said, "what we've got now is what we're going to go with."

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**Shoppes at Chino Hills Sells for $94.5 Million**
**奇諾崗 388,000 SF 購物商場（The Shoppes at Chino Hills）以$94.5 million 的價錢賣出**

*By Kevin Watson (Costar)*

A consortium of banks led by Bank of America sold The Shoppes at Chino Hills in Chino Hills, CA, for $94.5 million, or $250 per square foot. A private Southern-California based investment group purchased the REO property.

The 388,000-square-foot lifestyle center is at 13800-13920 City Center Drive. The Shoppes at Chino Hills was developed by Opus West in 2008 and designed by Altoon & Porter Architects. After Opus West filed for bankruptcy reorganization in 2009, the bank group took possession. The large master planned project was 87% leased at time of purchase.

Ryan Gallagher, Bryan Ley, Kelly Rohfeld and Donald Curtis of HFF represented the seller. Tim Sotoodeh of Tim Sotoodeh Real Estate Office represented the buyer.

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**Schools Fill Vacancies in Office Parks, Shopping Centers**
**盈利學校成為商業地產新寵：許多盈利學校填補了辦公樓和購物商場的空**

*By Melissa Korn (WSJ)*

Shopping-center and office-park owners, saddled with vacant space since the start of the recession, are finding unlikely saviors: for-profit colleges.

The schools, eager to keep up with demand from out-of-work adults seeking new skills in the health-care, automotive and technical trades, are renting empty mall anchor stores, grocery stores and space in office buildings to house their classrooms and training facilities. Though there are some obstacles to moving in, the schools are often welcomed as tenants, picking up hundreds of thousands of empty square feet and bringing new customers to nearby shops.

"It's one of the few sectors in real estate that's doing well, and one of the few sectors that's actually expanding," said Darren Shibuya, principal at CresaPartners, a real-estate services company that has worked with a number of schools. Mr. Shibuya said he estimates higher-education activity has doubled at CresaPartners in the last three years.

Apollo Group Inc.'s University of Phoenix has been leading the charge on expansion, adding more than 120 properties to its portfolio of offices and classrooms between Aug. 31, 2006, and Aug. 31, 2009. The company now has more than 200 locations in 39 states.

In addition to opening additional branches in entirely new cities, many schools are finding they just need to expand off their existing bases. For example, the Las Vegas campus of Washington Post Co.'s Kaplan College recently moved from a 24,770-square-foot office space to a 40,000-plus square-foot store that had been vacated by electronics retailer CompUSA.

Landlords are offering concessions such as free rent and money toward renovations, and many of the larger school chains have strong financials that make them optimal candidates for long-term leases. Sometimes, however, schools can't move in no matter how attractive the deal. Real estate insiders say they have confronted national retail chains that have clauses in their leases barring landlords from renting nearby space to vocational schools because they would compete for parking.

Even some of those restrictions are softening, though. So far this year, said Matt Nine, managing partner of Campus Real Estate Solutions LLC, his company has been successful every time it has discussed sharing space with large anchor stores. The firm is in the process of conducting a study on students' spending habits to help market the schools' merits to prospective retail neighbors.

Despite their current success, schools looking to expand quickly should be cautious about being too aggressive. For example, Universal Technical Institute Inc. doubled its capacity between 2000 and 2005 but was caught off guard when the economy recovered in the middle of the decade and prospective students chose immediate employment over further education. UTI filled just 71.6% of its seats in the first quarter of this year, though that is still a vast improvement over the 63.1% capacity utilization in a year earlier.

"We saw that, in the last cycle, schools were overly ambitious with their growth," Mr. Shibuya said. Learning from past experience, he said his firm tries to provide flexibility for both growth and downsizing, writing termination and give-back clauses into leases to allow schools to break the contracts early if they don't expand as expected.

In addition to concerns about a job recovery swiping prospective students, the explosion of online schools may slow ground-based campus growth. According to research firm Eduventures Inc., online students could make up 20% of total headcount in 2014, up from about 11% in the autumn of 2009.

Jeffrey Woolf, executive director at real estate firm Cushman & Wakefield Inc., said that shift could create "a dampening of demand for space, to an extent," but noted that some programs, such as cosmetology and phlebotomy, will always require hands-on training.

**U.S. CMBS Delinquencies Approach 8% on Office Defaults**
**辦公樓商業地產抵押證券的拖欠率高達 8%**

*(CoStar)*

A $1 billion net increase in office loan delinquencies fueled a 49 basis point (bp) rise in U.S. CMBS delinquencies to 7.97% in May, according to the latest index results from Fitch Ratings.

At the same time, delinquencies for U.S. commercial real estate-related CDOs again declined slightly last month as asset managers continued to both extend loans and trade out credit risk assets, according to Fitch.
"As expected, office loan delinquencies have begun to increase and will continue to rise well into next year," said Mary MacNeill Fitch managing director. "Though office loans have outperformed the index due to long-term leases insulating against cash flow fluctuations, performance has come under pressure. Landlords are facing tenant downsizing and in many cases must offer significant concessions and reduced rent to maintain their existing tenant bases."

The largest newly delinquent contributor to the CMBS index in May was the $380 million Columbia Center loan, the collateral for which is in Seattle, WA. The loan (sponsored by Beacon Capital Partners LLC) transferred to special servicing in February 2010 due to imminent default and is now 60 days past due.
In total, 44 office loans became newly delinquent in May, including 14 loans with a balance greater than $20 million.

Future office sector index readings could be impacted if two large office loans that recently transferred to special servicing, the $4.9 billion EOP portfolio loan and the $2.7 billion Beacon Seattle & D.C. portfolio loan, fail to remain current. If those two loans were to become 60 days delinquent, the overall index would increase by 135 bps and the sector-specific reading would increase by more than 400 bps.
Despite a net increase in delinquencies of 18.6% in May, the office sector remains strongest of all the traditional property types with a delinquency rate of 4.59%. The industrial and retail sectors posted delinquency net increases of 9.5% and 5.8%, respectively, while hotel delinquencies rose less than one% and net delinquencies for multifamily loans dropped slightly for the first time in 20 months.
Current delinquency rates by property type are as follows:

- Hotel: 18.63%
- Multifamily: 13.65%
- Retail: 6.03%
- Industrial: 5.07% and
- Office: 4.59%.

**CRE CDOS**
There were 45 CRE CDO loan extensions reported in May, including four former matured balloon loans. Three previously delinquent assets were disposed of by asset managers at losses ranging from 20% to 99.8% of par. In May, total realized losses on credit risk assets were reported at more than $50 million.

"Many troubled assets disposed of at losses this past month were not yet considered delinquent," said Fitch director Stacey McGovern. "However, the largest single-dollar loss in the period was related to the discounted sale of a defaulted New York City development site. This whole loan defaulted in 2009 after the business plan stalled and was sold in May with a loss of approximately 65% of par."

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"The CREL delinquency index may understate the extent of credit risk assets as managers continue to pursue resolutions and/or trade out potentially troubled assets at losses to par, often prior to actual default,' McGovern added.
Multifamily properties comprise the largest percentage of all delinquent assets at 23%; however, the next largest percentage consists of loans secured by land/development sites at 21%. Additionally, while only 16% of all multifamily loans in CDOs rated by Fitch Ratings are delinquent, approximately 27% of all land loans in rated CDOs are currently defaulted.

Further, 25% of all loans secured by nontraditional property types, including land for development, condominium conversions, and construction loans, are currently delinquent. While the majority of these loans are still considered performing, they are generally not cashflowing and are supported by interest reserves, which will continue to burn off. Sponsors may not continue to support many of these loans due to the substantial declines in property values. Fitch Ratings assumes 100% probability of default for these non-traditional property types in its modeling.

**Consumer Money Rates (Mortgage Rate, Prime Rate, etc.)**
**消費者市場利率：房貸、基本利率、等等**

Consumer Money Rates

| | Yield/Rate (%) | | 52-Week | | Change in PCT. PTS | |
|---|---|---|---|---|---|---|
| Interest Rate | Last | Wk Ago | High | Low | 52-week | 3-yr |
| Federal-Funds rate target | 0-0.25 | 0.00 | 0.00 | 0.00 | - | -5.25 |
| Prime rate* | 3.25 | 3.25 | 3.25 | 3.25 | - | -5.00 |
| Libor, 3-month | 0.54 | 0.54 | 0.61 | 0.25 | -0.07 | -4.82 |
| Money market, annual yield | 0.78 | 0.78 | 1.31 | 0.74 | -0.52 | -2.92 |
| Five-year CD, annual yield | 2.56 | 2.58 | 2.71 | 2.50 | -0.06 | -2.49 |
| 30-year mortgage, fixed | 4.88 | 4.93 | 5.74 | 4.88 | -0.74 | -1.53 |
| 15-year mortgage, fixed | 4.34 | 4.38 | 5.16 | 4.28 | -0.82 | -1.78 |
| Jumbo mortgages, $417,000-plus | 5.76 | 5.77 | 7.14 | 5.76 | -1.06 | -0.86 |
| Five-year adj mortgage (ARM) | 4.03 | 4.06 | 4.99 | 3.79 | -0.94 | -2.07 |
| New-car loan, 48-month | 6.33 | 6.39 | 7.47 | 6.33 | -1.03 | -0.58 |
| Home-equity loan, $30,000 | 5.14 | 5.14 | 5.87 | 5.12 | -0.69 | -1.54 |