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Mortgage Bankers Assn. Reports Increase in Delinquency Rates for All Commercial/Multifamily Mortgage Investor Groups
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By Mark Heschmeyer (Costar)

Delinquency rates continued to increase in the first quarter for all commercial/multifamily mortgage investor groups, according to the Mortgage Bankers Association's (MBA) Commercial/Multifamily Delinquency Report. The delinquency rate for loans held in CMBS is the highest since the series began in 1997.

"Weakness in the economy has continued to weigh on commercial properties, which in turn weighs on the mortgages they back," said Jamie Woodwell, MBA's vice president of commercial real estate research. "Economic growth, specifically in areas of jobs and consumer spending, will be key to stabilizing the commercial property and mortgage markets going forward."

Construction and development loans are not included in the Mortgage Bankers' numbers. Based on the unpaid principal balance of loans (UPB), delinquency rates for each group at the end of the first quarter were as follows.
* Life company portfolios: 0.31% (60+days delinquent);
* Fannie Mae: 0.79% (60 or more days delinquent);
* Freddie Mac: 0.24% (60 or more days delinquent);
* Banks and thrifts: 4.24% (90 or more days delinquent or in non-accrual).

According Mark Fitzgerald, senior debt analyst for CoStar Group, the overall CMBS delinquency rate has now passed 8.5%, an all-time high "at least, until next week," Fitzgerald said.

"This equates to just under $62 billion of distressed commercial real estate loans," Fitzgerald said.

More importantly Fitzgerald noted is the much-discussed topic among real estate investors is how the overhang of "shadow supply" will impact a recovery in real estate values.

"In the CMBS market, there is currently an additional $76 billion worth of loans with a debt service coverage ratio (DSCR) below 1.01 - meaning the net operating income (NOI) on the property is not enough to cover the loan payment -- that are still performing," he said. "With NOIs across the U.S. expected to fall over the next couple of years, it is unlikely that many of these properties will be able to hang on."

"When available loan reserves run out, borrowers must decide whether to fund properties out of their own pockets; considering that a large percentage of these properties are underwater, many will choose to simply walk away," Fitzgerald said. "Alternatively, borrowers can seek modifications from the special servicers. Assuming that all of these properties enter the delinquent ranks, we can see that all property types will be affected."

"For hotels and apartment properties, this would imply future delinquency rates of 40% and 30%, respectively," Fitzgerald said. "Of course, not all these loans will become delinquent, but with declining NOIs, some properties whose DSCR is currently greater than 1.00 will also join the distressed ranks. This increased volume of distress would cause special servicers to become even more overburdened, and loss severities, already high, could increase further. Clearly, this is scary news for CMBS investors. But it could create tremendous opportunities for equity capital now on the sidelines."

Three-Month Improvement Streak in Architect Invoices Halted In May; Weak Availability of Construction Financing the Likely Culprit
三個月以來持續好轉的建築業在五月份下降；原因很可能是建築貸款的短缺

By Randyl Drummer (Costar)

Those watching the horse race of various real estate and construction indices, take note. After rising for three straight months, the Architecture Billings Index (ABI) declined nearly three points in May, reflecting a continuing fall in demand for design services.

The ABI, a leading indicator for construction activity compiled by the American Institute of Architects (AIA), reflects the typical 9- to 12-month lag between billings by architecture firms and hard construction spending. The May ABI rating was 45.8, down sharply from 48.4 the previous month.

"This dip is somewhat of a surprise since it appeared that conditions were pointing towards a recovery," AIA Chief Economist Kermit Baker said. "The overriding issue affecting the entire real estate sector is unusual caution on the part of lending institutions to provide credit for construction projects that apparently would be successful in this economic environment."

The increase in the April index bolstered hopes that construction activity will be stronger this time next year. The index, which measures billings for design service on nonresidential construction projects, rose for the third straight month, jumping from 46.1 in March to 48.4 in April, its highest level since January 2008.

Despite the three months of consecutive increase that ended with the May report, demand for the services of architects and other design professionals still hasn't moved into positive territory, since a score of 50 or above indicates an increase in billings.

The index for inquiries about new project was 55.5 in May, also down significantly from April's 59.6. Among U.S. regions, the Northeast posted 50.6, the Midwest, 48.5, and the South, 45.9, and the West 42.9. Commercial and industrial projects fared a little better at 51.3, trailed by multifamily residential (46.9), mixed practice (46.8) and institutional (43.4).

CRE Markets Have Moved Away from the Edge, but Not Out of Trouble
某報告認為商業地產已達谷底，但回升的過程依然會很漫長

By Mark Heschmeyer (Costar)

While commercial real estate values have not rebounded in the first six months of the year, the fear that 2010 was a disaster waiting to happen has subsided as liquidity has started flowing back into the market, according to new reports out this past week from PIMCO and PricewaterhouseCoopers.

The pair of reports suggest that, for institutional quality property at least, property values have found a bottom and cap rates have peaked and could even start to subside. Neither of the reports is projecting a worry-free environment, however, in fact both are projecting a long, long road to full recovery.

"While most investors sense that the worst is over in terms of market deterioration, supply greatly outweighs demand across all property sectors keeping overall vacancy rates high and rental rates on a downward trend," said Susan Smith, director, real estate advisory practice, PricewaterhouseCoopers. "Top-tier locations are showing the most signs of life with respect to tenant interest and recovery potential. However, inspiring leasing trends have yet to fully materialize, further contributing to this sense of market flux."

Commercial real estate investors seem frustrated and disappointed at the lack of quality buying opportunities that many expected would have materialized by now, according to the second quarter 2010 findings of PricewaterhouseCoopers' (PwC) Korpacz Real Estate Investor Survey. The report notes that the unknown speed and strength of the economic recovery has many investors anxious, with the uncertainty surrounding the large debt volume coming due in 2011 and 2012 amplifying their angst.

In the quarterly survey, the average overall capitalization rate, a key measure of investors' expectations of property income and value, declined in 17 of the survey's 30 markets over the past three months, an indication that investors perceive less risk in the industry now, particularly for prime properties and better markets, according to the PwC survey.

The 'bottoming' of the industry continues to be recognized by investors' expectations that overall cap rates will either decline or hold steady in most markets over the next six months. Specifically, survey participants forecast overall cap rates to hold steady in 18 of the survey's 30 markets. Furthermore, the survey data revealed that 13 markets could see overall cap rates decline by as much as 100 basis points in this time period.

Surveyed investors cited potential declines in near-term overall cap rates in the Manhattan office market, the national warehouse market and the national apartment market (all three segments down as much as 100 basis points).

For individual office markets included in the survey, average overall cap rates remain lower for central business district (CBD) submarkets than for suburban counterparts, suggesting that investors continue to see less risk and better investment potential in the major CBDs.

"There is a tremendous amount of capital targeting institutional-grade, quality assets," Smith said. "In fact, survey participants cited that strong competition among well-capitalized buyers is helping to elevate sale prices and lower overall cap rates for many prime properties. Furthermore, the low percentage of distressed trades as of late reflects investors' preferences as most buyers are steering clear of 'junk' and focusing only on core assets according to survey participants."

John Murray, commercial real estate portfolio manager and head the PIMCO's CRE/CMBS team, also reported that capital is clearly returning to commercial real estate, helping to stem the value declines in the sector. But, his report stressed that optimism should be tempered because national price indices are misleading when transactions are limited and fail to reflect the significant uncertainty around property valuations.

"Capital has returned to CRE and high levels of bidding activity in certain sectors have made many observers and participants optimistic," Murray wrote in his report. "Transactions have generally been limited and capital flows have been concentrated in trophy properties and in properties where below-market agency financing is available. This has provided a false sense of clarity on the real level of property values. A significant volume of weaker and distressed assets has yet to be liquidated and this foreshadows further pressure on values. Against this backdrop, we caution against the presumptions that a rapid broad-based recovery is underway."

Murray is not as optimistic on the direction of cap rates as PwC survey participants.

"We expect that the spread between cap rates and 10-year Treasuries will remain above its average of 265 basis points seen since 1995, as the litigious deleveraging process leads to a sustained period of risk aversion in the sector," Murray wrote. "If cap rate spreads remain above their average, the market can expect long-term cap rates near or above 8%. In this case, even if properties with floating rate debt can successfully avoid defaults in the short term, rising longer term rates will create a floor for cap rates and limit recoveries."

As the deleveraging cycle unfolds, attractive opportunities are likely to be available to investors with capital, Murray wrote. Although, he warned that capital flows alone should not be a gauge of where attractive investment opportunities lie.

"Many owners in primary markets are perplexed by the extent of non-US capital flowing into their markets. With this in mind, new investors should not expect a continued rapid appreciation in pricing for trophy assets in these markets," Murray wrote. "Conversely, owners of grocery-anchored retail assets in smaller markets express frustration in securing financing today, despite strong tenant profiles and positive demographics. As capital returns to CRE, we expect this yield spread (as reflected by cap rates) between trophy assets and less liquid, quality assets in smaller markets to eventually tighten."

Existing Home Sales Slack Off in May
二手房買賣在五月份下滑

By Dees Stribling (Commercial Property Executive)

It couldn't be called a surprise, but it was unwelcome news all the same when the National Association of Realtors reported on Tuesday that the sale of existing homes dropped 2.2 percent in May to an annualized rate of 5.66 million. The federal homebuyer tax credit ended April 30 in the sense that buyers had to ink a deal by then, and that apparently knocked the wind out of the market.

On the other hand, sales during May 2010 were 19.2 percent higher than sales in May 2009. Also, the national median existing-home price for all housing types was $179,600 this May, up 2.7 percent from the same month a year ago. Distressed homes slipped to 31 percent of sales last month, compared with 33 percent in April; it was also 33 percent in May 2009.

NAR is pushing for an extension, to September 30, of the period during which buyers have to close their purchases to take advantage of the tax credit; the deadline is currently June 30. "Approximately 180,000 home buyers who signed a contract in good faith to receive the tax credit may not be able to finalize by the end of June due to delays in the mortgage process, particularly for short sales," said the organization's chief economist, Lawrence Yun, in a statement.

Nation's Housing Report Offers Good News — Some Years From Now

The U.S. Green Building Council and the Joint Center for Housing Studies of Harvard University released a study on Tuesday, "The State of the Nation's Housing 2010," and the two organizations concluded, like the old joke that begins in a doctor's office, that there's good news and bad news.

First, the bad news. "One of the biggest drags on the housing market is the high joblessness rate," the report noted. "With more than 7.8 million fewer establishment jobs than in December 2007, unemployment held at 9.9 percent in April 2010. If the past is any guide, the strength of the housing recovery will depend most on the bounceback in employment growth… [but] most economists predict that the unemployment rate remain elevated."

Also, "many current owners are effectively trapped in homes that are worth less than the amount owed on their mortgage," the report said. "If these distressed owners want or need to sell, their only choices are to walk away from their homes or write a check at the closing table. This will inhibit a recovery in repeat home sales."

And the good news? Look ahead: "Even if immigration falls to half the Census Bureau's current projected rate, household growth will still average about 1.25 million annually. This low-end estimate puts household growth in the next 10 years on par with the pace in 1995-2005, and should support average annual housing completions… of well over 1.7 million units."

Korpacz Study Finds Investors Frustrated by Lack of Deals
報告顯示投資者對於找不到好的投資項目而感到鬱悶

By David Bodamer (Retail Traffic Magazine)

PricewaterhouseCoopers' Korpacz Real Estate Investor Survey for the second quarter of 2010 finds that investors are looking for opportunities to buy but are largely frustrated by the lack of quality assets hitting the market.

According to the report, "While a lack of quality offerings is partly to blame for the serene sales activity to date, mixed signals and fluctuating opinions on the near-term performance of the U.S. economy, the banking industry, and the commercial real estate industry are also at fault."

Despite that sentiment, the Korpacz survey—like other recent reports tracking tracking investment sales volumes—showed that cap rates on the deals that are closing are falling sharply. By market, the study found that cap rates across all property types fell in 10 of the 17 survey markets. In addition, cap rates fell on seven of 10 property types.

According to the report, "cap rate compression mostly continues to occur for better-positioned and well located assets that exhibit stable rent rolls and limited near-term leasing risk." Survey respondents think that trend will continue, with many expecting cap rates to decline or hold steady over the next six months.

The outlook for regional malls is in decent shape. The study points to the fact that retailers have added thousands of jobs in recent months and many tenants are ramping up store expansion plans. With same-store sales posting gains and consumer confidence also rising, the consumer picture does have positive signs even without the economy adding jobs at a robust rate. But the lack of job growth has some wondering whether the rise in retail activity is sustainable. Respondents don't see a basis for further retail growth without more jobs being created.

In addition, the study notes, "most regional mall assets are still experiencing declines in net operating income and value due to lower rental rates, a greater need for concessions, and growing property expenses."

Respondents were less sanguine about power centers. According to the report, the sector is "challenged by too much available space, particularly in cities that were hotbeds during the recent residential building boom." As a result, "[v]acancy and leasing issues remain a concern for existing power center owners, as well as for potential buyers."

Lastly, in the strip center market the survey found the market is bifurcated. Assets that were on solid footing entering the crisis have held up while weaker centers have deteriorated, leading to a wide gap between the best and worst properties. As a result, investors only want to buy the better assets and are facing stiff competition when deals do become available.

According to the report, "[f]inding unstressed assets for sale, however, remains a challenge as offerings sit well below historical levels. In the first quarter of 2010, strip shopping center offerings totaled $1.9 billion, according to Real Capital Analytics. This total was $6.8 billion during the same time period just two years ago." Overall, $1.3 billion in strip shopping centers traded hands during the first quarter of 2010—about the same amount as in 2009. That volume is less than one-tenth the volume posted in the first quarter of 2007 when strip shopping center sales totaled $14.9 billion.

Banks Appear More Willing to Work with Borrowers on Deals to Recapitalize and Restructure Debt, at Least for Certain Borrowers with Premier Assets
銀行似乎更願意與借款人商談債務重組，至少對擁有頂級產業的借款人

By Randyl Drummer (Costar)

Several recent transactions suggest that real estate executives across the country are growing more confident that owners are finally finding common ground with lenders on property valuation, allowing them to dodge foreclosure and recapitalize or restructure their debt -- at least in those transactions involving high-quality assets in prime locations - and buy a fresh start in the gradually strengthening economy.

Tishman Speyer Properties LP pulled off two such agreements with lenders this month -- much-needed wins by a commercial real estate firm that took on quite a bit of debt from acquisitions made during the real estate boom.

Tishman and its equity partners, staring down the barrel of a foreclosure auction by junior debt holder Brookfield Properties Corp., successfully completed a $700 million capital infusion and retired the debt on its portfolio of 28 Washington, D.C.-area office buildings. The prized portfolio includes International Square, a number of prominent Pennsylvania Avenue buildings, Terrell Place, the Commercial National Bank Building and others, plus high-quality assets in Arlington, Tyson's Corner, Alexandria, Reston and Bethesda.

New York-based Tishman, involved in such iconic properties as New York's Rockefeller Center and Chrysler Center, Berlin's Sony Center and Torre Norte in São Paolo, Brazil, also this month reached an agreement to restructure debt secured by five downtown Chicago office properties it acquired from Blackstone Group LP in 2007. The deal injects fresh capital into the portfolio, "enabling ownership to fulfill all existing financial obligations and fund costs related to future leasing and operation" of the buildings, which include One North Franklin, 161 N Clark, 10 & 30 South Wacker, Civic Opera Building and 30 N LaSalle.

The D.C. deal in particular was music to the ears of market observers watching carefully for signs that office prices are beginning to stabilize, hopeful that the tidal wave of foreclosures predicted by analysts as recently as last year won't be as devastating as expected.

"I just stepped outside, cocked my ear and heard a huge sigh of relief in the wind all the way from Manhattan and down K Street [in D.C.]," said Benjamin B. Lacy, chairman, Lacy Ltd., a longtime observer of the Washington property market, following news of the company's successful effort to buy back its debt. "Tishman was very fortunate. I didn't think they were going to be able to pull it off, but they did."

Tishman declined a request to discuss the capital position it took in the recap, or the level of financial involvement by its equity partners. Those partners include investment company SITQ, the real estate investment subsidiary of Caisse de depot et placement du Quebec of Canada. Tishman said in a prepared statement that "retiring the debt deleverages the portfolio, creates additional liquidity and puts ownership in a strong position to execute its long-term business plan."

The company said it will continue to be the general partner, property manager and leasing agent for all 28 properties, which total 6.3 million square feet and are 88% leased.

"What was at work here was the quality of the properties," Lacy noted. "This is a great portfolio in the best market in the country -- some people say the best in the world. If there was ever going to be a workout that was doable, this was the one. It had all the right things going for it."

However, Tishman Speyer was not as fortunate earlier this year when lenders foreclosed at its massive multifamily development known as the Peter Cooper Village-Stuyvesant Town in lower Manhattan.

Tishman and BlackRock Realty bought the project from MetLife in 2006 for $5.4 billion, hoping to renovate the buildings, bring in upscale tenants and raise rents. However, the state's highest court last fall ruled that the rent hikes were improper. Loans went delinquent on $3 million in senior debt in January and Bank of America and its special servicer CWCapital Asset Management LLC sued to foreclose. Last week, a federal judge ruled that the foreclosure and auction can move forward.

"Peter Cooper Village-Stuyvesant Town was an untenable situation, a case where the deal just wasn't strong enough to get a partner in and get a workout done," Lacy said. "But Tishman worked it out in D.C. and Chicago. It proves that certain players in certain markets can do these things. But for others, there are going to be some serious foreclosures."

By most accounts, holders of commercial mortgage debt are just at the very beginning of the lengthy process of unwinding their portfolios of loans to highly leveraged borrowers for property bought at the top of the market in 2005-07. Property owners are expected to face increasingly tough decisions about whether to restructure their debt and retain ownership of their properties or hand back the keys to lenders. Lender syndicates that own the growing mass of maturing CRE loans will eventually need to either exit or restructure that debt, which analysts say will lead to upside return opportunities for patient and well-capitalized investors.

That potential flood of sellers will eventually reach firms like Miami Beach-based LNR Property Corp., the nation's largest special servicer of delinquent commercial mortgage-backed securities (CMBS) loans. LNR, which also invested in some of the riskiest pieces of CMBS before the market spiraled 2 ½ years ago, announced earlier this month that it is actively pursuing a comprehensive recapitalization through a debt-for-equity swap.

According to reports, Vornado Realty Trust (NYSE: VNO), eyeing a potentially lucrative source of acquisitions, could take a stake in LNR as part of the restructuring. Vornado is also said to have submitted a bid for CW Financial Services, parent of CWCapital Asset Management, the nation's second-largest CMBS special servicer.

In the complex transaction, existing LNR shareholders and noteholders would cooperate in a $400 million equity rights offering to refinance a loan of nearly $900 million.

LNR, spun off from homebuilder Lennar Corp. in 1997 before being taken private by Cerberus Capital Management (which interestingly, won a bidding war with Vornado for ownership of LNR in 2004), also said Goldman Sachs and Bank of America Merrill Lynch will be lead arrangers for a $445 million new senior secured loan. The combined proceeds of the rights offering and new loan will be used to refinance LNR's existing $868 million senior secured loan, cancel a $150 million revolver loan and pay transaction fees and expenses. The company's existing $420 million holding company debt would be converted to equity as part of the recapitalization.

Recaps and loan restructurings where investors contribute capital in exchange for a reduced senior loan principal balance and a preferred equity position can provide investors with a lower cost basis and a share of the upside returns, according to bond investment company Pacific Investment Management Co., known as Pimco.

However, "these types of restructurings are complex transactions that will require investors to have substantial capital to participate in larger deals, as well as relationships with both lenders and borrowers," Pimco said. Property pricing may not be recovering to the degree suggested by CRE indexes, and lesser quality assets in the bifurcated distressed property market may be difficult to sell.

Lenders with stronger balance sheets, however, do seem more willing this year to entertain recapitalization deals, noted William R. Lindsay, co-founder of real estate investment firm PCCP, LLC. The San Francisco-based company, has more than $6 billion under management in multiple closed-end funds and joint ventures with institutional investors, headed an ownership group that succeeded in buying back a $212 million construction loan as part of a $300 million recapitalization of The Streets at SouthGlenn, an open-air mixed-use center in Centennial, CO, southeast of Denver.

"Since January 1, we've seen a notable increase in the willingness of well-capitalized banks -- banks with earnings -- to consider proposals that are more reflective of what we believe to be the current value of the real estate," Lindsay said. "They have large portions of their balance sheet dedicated to real estate and they know they need to move through it."

Early in the financial crisis, borrowers held more power in working out debt with lenders because banks were busily trying to scour their balance sheets and unwilling to foreclose on commercial property. The pendulum swung in favor of lenders last year as at least the money-center banks gained strength.

In 2010, the pendulum has swung back a bit toward the borrower -- if the borrower is in a position to take advantage of opportunities that are coming as well-capitalized lenders move through their inventory of workout assets -- and "make commercially sensible decisions about what assets to take back, what to modify and what to sell at a discount," Lindsay said.

"We've been fairly busy in the first half of this year putting rescue capital into deals because the bid-ask spread between the senior lien holders and the rescue capital has narrowed substantially. Investors are demanding lower returns than they were a year ago," Lindsay said. "Everyone is a little less afraid. The lenders will maybe take less than they thought they'd get, realizing that if they wait longer, it may get worse. The borrower will pay a little more than they wanted to pay. The rescue capital coming in, the new dollars, is recognizing that not everyone needs to get a 30% return."

"Everyone's now moderating, and that's why we're seeing deals happen."

In the case of the Colorado property recap, a joint venture of PCCP, Alberta Development Partners LLC and Walton Street Capital LLC provided the capital infusion for The Streets at SouthGlenn, a mix of retail, entertainment, commercial and residential properties.

The project includes 580,542 square feet of retail, 137,010 square feet of office and 202 apartment units. According to the Wall Street Journal, the JV bought a $212 million construction loan from Bank of America and a separate mezzanine loan as part of the recapitalization. The recap provides the ownership group with "significant working capital" to reinforce the financial structure of the project, which PCCP principal Phil Russick described as "challenging."

"I wouldn't say all investors are acting with a lot of confidence," Lindsay said. "Valuation is still very problematic and the world is still very volatile. But at the margin, things are a lot different than they were 12 months ago. People can see light at the end of the tunnel now."

Recent Deals Signal Spark in CMBS Market
近期商業貸款抵押證券的市場出現解凍的跡象

By Jennifer Popovec (Retail Traffic Magazine)

The commercial mortgage-backed securities (CMBS) market is beginning to defrost—faster than many had expected, but definitely slower than anyone had hoped. But, it's much too early to say that a robust CMBS market is reemerging, simply because new CMBS issuances have been unimpressive.

Since June 2008, there have been only a handful of new-issue CMBS deals, and all but one were single-borrower deals that closed during the fourth quarter 2009. Last month, The Royal Bank of Scotland Group (RBS) created some buzz by bringing the first multi-borrower deal to market, but it was relatively small at $309.7 million.

"These deals were welcomed because we hadn't seen anything for months," says Lisa Pendergast, managing director of CMBS strategy and risk for New York City-based Jeffries & Co. Inc. "But they didn't make you think it was the beginning of something big.... Still, these are positive steps. Unlike first half of 2009 when you didn't have folks willing to lend, now they're willing to lend, if only for the very best properties."

That's a marked change from CMBS' rock and roll years when even marginal borrowers were able to finagle conduit financing because bond investors were so ravenous they were willing to take on plenty of risk. At the same time, conduit lenders were able to attract institutional quality borrowers and assets because their pricing was more competitive than portfolio lenders.

"During the heyday, CMBS was cheaper and got the best assets," says Gerry Mason, executive managing director of New York City-based Savills Granite. "Now CMBS is getting the stuff that portfolio lenders don't want."

Mason isn't referring only to sponsorship or asset quality, but also to loan size. While portfolio lenders are active in the market, they have allocations and diversification requirements. Large loans might exceed those requirements.

Mason points to the recent CMBS deals done with Ramco-Gershenson Properties Trust as an example of a borrower with a class-B retail portfolio that would not appeal to a portfolio lender. The REIT recently closed on a $31.3 million CMBS loan with J.P. Morgan, securing a loan at 60 percent LTV for two retail properties at a ten-year term at a fixed rate of 6.5 percent.

Similarly, Glimcher Realty Trust closed a $55 million CMBS loan with Goldman Sachs Commercial Mortgage Capital, L.P. for The Mall at Johnson City in Johnson City, Tenn. The 10-year loan has a fixed interest rate of 6.76 percent. The REIT also obtained a $46 million CMBS loan through Bank of America, N.A. for Polaris Towne Center in Columbus, Ohio. The 10-year loan also has a fixed interest rate of 6.76 percent.

Interestingly, retail assets have emerged as one of the most attractive property types for both CMBS originators and investors, despite ongoing concerns with consumer confidence and retail spending.

There was a time when lenders ranked retail properties alongside hotel assets as something to stay away from because of uncertainty within the sector. Today, retail is seen as far more attractive than hotels and marginally more attractive than multifamily. It stands shoulder to shoulder with office and industrial, according to experts.

Like retail property investors, lenders consider grocery-anchored retail centers attractive given their recession-resilient qualities. Power centers are less attractive because of the number of closures in the big-box segment.

However, power centers with market dominant boxes still look good to conduit lenders, particularly those in well-established markets.

In contrast, malls and lifestyle centers are pretty much out of favor, Mason notes. He explains that there are very few fortress malls to finance; instead, the majority of mall inventory is class-B assets that are located in secondary or tertiary markets.

Meanwhile, lifestyle centers were overbuilt during the most recent construction boom, and lifestyle tenants have suffered mightily during the downturn. Moreover, leases are likely above-market and are not sustainable in today's environment.

Retail properties that were built around new housing developments are the least attractive of all retail assets. These properties are the most vulnerable to vacancy and re-leasing risk, experts note.

"I think that there is a very good case that well-located, anchored retail with a strong sponsor is a viable product," says Mark Doris, national business development director for San Francisco-based Wells Fargo's commercial mortgage origination group. "When you get away from that, every deal has to stand on its own. There are good retail assets out there; the whole asset class isn't tainted."

Dipping a toe

Industry players have nicknamed this new world of conduit lending CMBS 2.0, but the moniker is more a clever turn of phrase rather than representing a new kind of lending. In fact, it seems more like a step backward rather than a step forward. The way lenders are acting today is to try and get back to the kinds of conduit loans originated between 2000 and 2004. During that period, banks embraced CMBS as a way to make money, but were judicious in the amount of leverage they provided and still practiced quality underwriting.

Today, healthier banks and life companies are cautiously providing term sheets for conduit loans and pooling loans for securitization. But, many banks that were major CMBS players are still suffering with underwater assets across their lending business, not just in commercial real estate.

It's important to note that the banks that have originated and issued CMBS recently have closed the pools and priced the bonds in short order so they don't have to "warehouse" the loans on their balance sheets.

"There has been so much balance sheet damage that a lot of people are saying that there is no chance they can go to their boss and tell him they want to build a pool of commercial real estate loans to hold on balance sheet," says Manus Clancy, a senior managing director at New York City-based Trepp LLC. "Fortunately, there has been some healing where there is modest latitude to lend again."

For 2010, Trepp predicts $25 billion to $30 billion of new-issuance CMBS, a relatively disappointing number compared to 2007 when deal flow reached $207 billion, but certainly a big improvement over the $2.2 billion issued in 2009 and $8.9 issued in 2008.

"I think the industry will rev up because I have clients who were not in the market for making real estate loans for securitization last year, and now they are in the market," says Michael Gambro, co-chairman of the capital markets department at global law firm Cadwalader. He has been involved with nearly every new issuance CMBS deal that has come to market in the past eight months. "I would expect at least a couple of my clients to come out with deals, so we'll see volume pick up toward the end of the year," he says.

This still-developing market for new CMBS is awkwardly juxtaposed with growing defaults and delinquencies from vintage CMBS, particularly loans originated during 2006 and 2007. Even the most confident fixed-income investors have been shaken by increasingly dire reports that suggest CMBS defaults are increasing daily.

For example, Jeffries & Co. anticipates the fixed CMBS delinquency rate will top out at 12 percent to 13 percent during this down cycle, with the 2010 year-end delinquency rate at 11.6 percent. By far, hotels are in the worst shape, followed by multifamily. Office, retail and industrial have delinquency rates ranging from 4.39 percent to 5.27 percent.

Simple structures

The thawing of the CMBS market began with very simple issuances—single-borrower deals, which are just a small subset of the CMBS world overall. Traditional multi-borrower conduit deals that made up the majority of the market prior to the credit crisis have been slower to emerge.

The Federal Reserve and U.S. Treasury introduced Term Asset-Backed Securities Loan Facility (TALF) in March 2009 to help the Asset-Backed Securities (ABS) market including CMBS. By providing equity and debt capital, these programs supported lenders by making collateralized securities more valuable to investors, according to a recent report by UBS Capital. TALF for legacy CMBS expired in March, and TALF for new-issuance CMBS is scheduled to end in June.

TALF restarted the ABS market by offering liquidity. After the initiation of the TALF loan facility, ABS issuance averaged $ 14 billion per month compared to $1.6 billion in the six months prior.

From March 2009 to October 2009, there were eight ABS subscriptions worth nearly $86 billion of TALF-eligible issues. Of that amount, $49 billion worth of securities were purchased with TALF loans. Since the peak of the credit crisis, spreads for eligible assets have declined by more than 60 percent.

TALF succeeded in revitalizing ABS, but it had less of an effect on CMBS, experts note. TALF provided loans to purchase $4.1 billion in legacy CMBS (issued before January 1, 2009), but there was only one new issuance CMBS deal expedited by TALF—a $400 million deal with Columbus, Ohio-based shopping center REIT Developers Diversified Realty Corp. However, even the DDR transaction saw minimal participation through TALF, with only $72.2 million or 22 percent of the DDR AAA tranches pledged to TALF, according to Jeffries & Co.

“By the time the DDR deal came to market, there was enough pent up demand for low-leverage high quality real estate paper that TALF wasn’t necessary,” Gambro says.

Yet single-borrower deals like DDR’s set the stage for CMBS to come back faster than many expected, Doris says. “Those deals made it very clear that there was pent-up investor demand,” he says.

Subsequent single-borrower deals with Flagler Development Group ($360 million) and Inland Western Retail Real Estate Trust Inc. ($500 million) were also well-subscribed, likely because investors were able to dig deeper into the borrower’s credit and asset level performance to complete their own underwriting without relying on ratings from credit agencies, says Sam Richardson, a partner with global law firm Goodwin Procter LLP.

The Flagler deal saw $350 million AAA certificates with 23.9 percent credit enhancement priced at swaps plus 225 basis points, while the AA, A, and BBB- classes priced at swaps plus 400, 450, and 627 basis points, respectively.

The Inland deal, brought to market roughly 30 days later, saw AAA $58.4 million A-1class priced at swaps plus 150 basis points and the $330.6 million A-2 class at swaps plus 205. The AA and A classes priced at swaps plus 360 and swaps plus 420 respectively, while the BBB- class priced to yield 9 percent.

That's not to say that CMBS loans are not competitive. Mason says he's been talking with conduit lenders for a couple of deals and has been "surprised" at how close CMBS rates were to what insurance companies are offering. CMBS originators are willing to go to 70 percent leverage on a 10-year fixed rate in the 6.50 to 6.75 percent range with 30-year amortization. Life companies are making similar loans, with slight differences in leverage and rates.

The RBS deal, initially planned as $500 million issuance, was sold as a multi-borrower securitization with many properties, but it actually only had six borrowers. "The RBS CMBS deal was slightly illusory because of the number of borrowers—an investor can get a very good idea about borrower quality," says Tom Muller, a partner in the real estate and land use group at Manatt, Phelps & Phillips.

The smaller pool size was not caused by lack of investor interest, according to experts. In fact, the deal received strong demand and pushed pricing tighter than initial expectations to 4.5 percent yield or S+500 basis points.

Instead, banks are tentative about originating a large CMBS—both volume and the number of loans—that will have to sit on their books until they can sell it off to investors. The RBS deal reportedly closed, securitized, priced and sold to investors all on the same day, eliminating the need for warehousing.

Many banks are still recovering from the billions of dollars of CMBS they still had warehoused when investor demand dried up in late 2007. Many of those loans are underwater, which is why those with long memories are less likely to be on the leading edge of originating new conduit loans that have to sit on the balance sheet for an extended period.

Yet, the banks on the leading edge of CMBS 2.0 are demonstrating a rare creativity and courage, experts contend. "They're thinking this is an opportunity to make some money on the deals, but it's also an opportunity to make a splash and paint themselves as creative enough to revive the market," Muller says.

Wells Fargo, for example, has expanded its commercial lending platform to include CMBS. Last year, the bank wrote "a fair amount" of new commercial real estate loans in 2009 that it held on its books, Doris notes. He expects the bank's initial CMBS offerings will include 20 to 30 borrowers and that the bank will hold the loans and "take the warehouse risk" until they are able to pool them for securitization.
Strong investor appetite

As demonstrated with recent CMBS deals, investor demand has returned with surprising force, experts note. In 2008, however, fixed-income investors, from pension funds to life insurance companies, turned their backs on both residential mortgage-backed securities and CMBS. They were worried about the underlying quality of the collateral, as well as the attention to underwriting. They also had lost confidence in the credit ratings agencies.

"When it was clear that the CMBS underwriting was not of the quality that people expected, there was a dramatic loss of confidence in the market," Richardson says."Investors have had to regain that confidence and trust the product, so the first few deals that have come out have been simple structures with stabilized assets and conservatively underwritten."

It's hard to say whether investors have bought CMBS because they feel more confident about the recent deals that have closed or if they are just dissatisfied with other fixed-income investments. Yields on 10-year Treasuries, for example, have been pushed down to anemic levels of 3.88 percent.

Banks that have brought CMBS to market recently have reportedly had a series of meetings with large fixed-income investors to determine exactly what kind of deals investors want to see come to market and what they're willing to buy. Previously, originators were less worried about what investors were willing to buy because investors' risk tolerance was considerably higher than it is today.

"Issuers are listening to some of the concerns and trying to structure transactions so they're attractive to the investors," says Barbara Duka, managing director of structured finance for S&P. "They're going out to people who would hold the B piece and asking investors what they want a deal to look like. All the things that issuers know investors don't want to see—interest-only, high LTV—they're not doing it. They're being very careful to close on collateral to make the deals as attractive as possible."

These recent meetings between originators and fixed-income investors have resulted in quasi "made-to-order" CMBS. Investors are not only determining what they're craving but also the menu options. Investors want strong borrowers with high-quality, stabilized properties with strong in-place cash flow. Fixed-income investors find anything else—marginal borrowers or so-so properties—undesirable, and therefore, undeserving of loans, from the lender's perspective.

Of equal importance is the strict underwriting and conservative terms. Fixed-income investors got their fill of CMBS collateralized with interest-only loans with 85 percent LTVs. Today, they're looking for fully amortized loans with conservative LTVs—70 percent is pushing it, experts note.

Doris says current CMBS originations are more conservative transactions with far fewer moving parts. "You're making determinations on more predictable cash flow," he explains. "Previously, there was a lot of anticipatory cash flow analysis where today expectations are much more pragmatic."

Again, lenders know there is investor demand for this type of loan product, so they're willing to offer it to borrowers. Borrowers who don't fall into the rigidly and clearly defined box that investors have outlined are out of luck.

Savills' Mason says conduit lenders aren't interested in borrowers with less than class-B quality assets. "But, we're probably only six months away from the conduits being fine with that too," he says.

In fact, the biggest obstacle for CMBS 2.0 may be timing. "There are a lot of people who want to borrow, and there are a lot of lenders who want to make loans, but it takes some time to warehouse the conduit loans," says Malay Bansal, head of portfolio management & advisory services for commercial real estate and CMBS at NewOak Capital LLC in New York City. "Between the time it takes to make the loan and the time the bonds are priced, you could take a loss if the market moves in another direction. Lenders used to be able to hedge, but there's no real way to do that right now given the limited activity."

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

	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	0.53	0.54	0.60	0.25	-0.06	-4.83
Money market, annual yield	0.78	0.78	1.29	0.74	-0.51	-2.91
Five-year CD, annual yield	2.56	2.56	2.71	2.50	-0.09	-2.51
30-year mortgage, fixed	4.82	4.88	5.68	4.80	-0.82	-1.58
15-year mortgage, fixed	4.27	4.34	5.14	4.27	-0.71	-1.83
Jumbo mortgages, $417,000-plus	5.68	5.76	7.14	5.68	-1.05	-0.95
Five-year adj mortgage (ARM)	3.98	4.03	4.99	3.79	-0.86	-2.10
New-car loan, 48-month	6.33	6.33	7.47	6.33	-0.98	-0.58
Home-equity loan, $30,000	5.13	5.14	5.87	5.12	-0.69	-1.56