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Market Trends

(CIRE Magazine)

Green Certification to Increase;
市場趨勢：綠色商業地產的認證將增加（大部份會由現有的物業改造而成）

By 2020, 53 billion SF of space worldwide will hold some type of green building certification, up from 6 billion SF this year, according to a Pike Research report. Of that space, 80 percent will be commercial buildings, up from 73 percent currently. The majority of green certifications will be held by existing buildings instead of new construction, the report says. In contrast, most residential certifications will be new construction. "Green building techniques are increasingly becoming the standard within the architecture and construction industries," says Pike Research analyst Eric Bloom. He adds that the three major drivers behind green building certifications are "environmental responsibility, reducing operating expenses through energy efficiency, and regulatory requirements that mandate energy efficiency and certifications."

California Layoffs Highest in the Country
加州裁員全美最高

California has lost 458,600 jobs since March 2009, the highest number of any state, according to the Bureau of Labor Statistics. With a state unemployment rate of 12.6 percent, it trails only Nevada and Michigan. Six Golden State metro areas made the top 10 list for first-quarter layoffs.

Top 6 Layoff Metros	# of Employees Laid Off in 1Q10
Los Angeles-Long Beach	15,005
New York	14,600
Chicago	9,687
Riverside-San Bernardino-Ontario, CA	7,086
San Francisco	6,376
San Diego	3,586

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Buying into Distress: How to Buy Troubled Loans
如何投資問題貸款

By Monica Cunill-Fals and James W. Shindell (CIRE Magazine)

The principal parties involved in a loan sale are the owner of the loan the lender or its assignee and the buyer. If the loan has been securitized, the buyer likely will need to negotiate with the master servicer or special servicer for the loan. In some cases, a loan sale adviser or broker is hired by the lender to manage the marketing and bidding process.

Due Diligence Process
Careful due diligence of the loan and collateral property will help buyers decide whether to bid and at what price. Unfortunately, due diligence periods are brief. Generally, buyers have 10 to 30 days to conduct due diligence prior to bidding or entering into a written agreement for the sale and purchase of loans. Prior to receiving any documents and information from the lender, prospective buyers must sign a confidentiality agreement. Most agreements prohibit prospective buyers from contacting the borrower or any guarantor, indemnitor, tenant, or property manager.

In carefully reviewing the loan documents, buyers should confirm, among other things, the financial terms of the loan including the amount, the interest rate, the monthly debt service, and the monthly escrow and reserve requirements. Buyers also should check the loan documents for unusual provisions or future funding requirements, full or limited guaranty, or an environmental indemnity.

Buyers should confirm that the owner of the loan is in possession of the original loan documents, has the authority to transfer and assign the loan documents, and that no third party has a right to purchase the loan.

Buyers should obtain the following items from the owner for review:
• Chain of allonges to the promissory note and assignments to loan documents;
• Existing loan title insurance policy;
• Most recent property survey;
• Inspection, environmental, and other reports relating to the collateral property;
• Property rent roll and financial information;
• Financial information of borrower and guarantors/indemnitors; and
• Property insurance certificates.

Buyers also should review:
• A title update to ascertain, among other things, whether real estate tax assessments have been paid and if there are any liens;
• An assignment endorsement with respect to the existing title policy; and
• Uniform Commercial Code, judgment, bankruptcy, and municipal lien search results with respect to the borrower, any guarantors or indemnitors, major tenants, and the collateral property.

Buyers must find out if foreclosure or receivership proceedings have been filed and the status of the proceedings. The buyer should understand the foreclosure process in the jurisdiction where the property is located and know whether and to what extent any encumbrances, such as ad valorem taxes or construction liens, have priority over the mortgage lien.

Loan Documentation

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In a typical loan purchase transaction, the owner of the loan and the buyer enter into a loan sale agreement in which the owner agrees to transfer and assign the loan and the loan documents to buyer in as-is, where-is condition, without recourse, and with only limited representations and warranties from the owner. The representations and warranties provided by the owner in a loan sale agreement vary, but they generally are minimal, especially if the loan has been securitized.

Typical representations and warranties relate to the outstanding principal balance, escrow and reserve balances, and ownership of the loan. Buyers of en must provide an indemnity releasing and holding the owner harmless from any and all claims with respect to the loan and the loan documents and an agreement that the owner will have no further servicing obligations.
At the closing of the loan purchase, the owner will assign and deliver the loan documents to the buyer.

Pros and Cons
A principal advantage of a loan purchase is that a loan may be purchased at a discount and provides an opportunity to acquire title to the collateral property (scrubbed of subordinate liens) through the foreclosure process. In some states and under certain circumstances, a buyer could reduce or eliminate the transfer taxes normally due on a property sale.

Among the chief disadvantages of a loan purchase are the limited due diligence opportunity, which makes it necessary for the buyer to factor unknown risks into pricing, and the limited representations and warranties, which of en leave a buyer without meaningful recourse. Additionally, lender liability issues may travel with the ownership of the loan. T e buyer also bears the risk of the foreclosure process and borrower bankruptcy that would not be present in a purchase of the property itself. Since state laws governing loan purchase transactions vary, buyers should consult legal counsel with loan purchase experience.

U.S. Commercial Property Sales Trail Six-Year Average
2010 上半年商業地產的交易總額達$340 億元，是 2004 年以來平均上半年總交易額的 26%

By David M. Levitt (Business Week)

U.S. commercial real estate sales in the first half totaled about a quarter of the average of the previous six years as owners kept properties off the market, impeding investors with record funds for purchases.

Buyers and sellers completed $34.2 billion of deals through June, or 26 percent of the average first-half dollar volume since 2004, according to preliminary figures from Real Capital Analytics. The total was about 12 percent of the 2007 peak, when $277.7 billion of properties changed hands in the same period, data from the New York-based real estate research firm show.

Sales climbed 58 percent from last year's first half, when purchases dried up after the U.S. credit crisis and recession sent values tumbling. A dearth of available properties has sparked demand for the few deals being offered, according to Alan Kava, co-head of Goldman Sachs Group Inc.'s Real Estate Principal Investment Area in New York.

"People are frustrated that not a lot has been trading," Kava said. "When something does come to market, that lack of supply is causing almost a feeding frenzy. People have real estate funds that are not on an infinite time line -- they need to put capital to work."

Private equity real estate funds have a record $104 billion of equity available for U.S. deals, London-based research firm Preqin Ltd. reported last month. Blackstone Real Estate Advisors has the most to invest, with Goldman Sachs second, Preqin said.

Goldman Sachs, Blackstone

More than half of the $8.4 billion available for Goldman Sachs's property funds is reserved for overseas investments, Kava said. Blackstone has about $12 billion for real estate purchases, said Peter Rose, a spokesman for the New York-based private-equity firm.

Much of the money raised by private equity firms was in anticipation of a rush of foreclosure sales that failed to materialize, said Sam Chandan, Real Capital's chief economist.

In top cities such as New York and Washington, owners who owe more than their properties are worth are instead finding new sources of equity and lenders are willing to restructure their loans, he said. In less attractive markets, banks have been extending loans, waiting for higher prices so they don't record losses, according to Chandan.

"Many people were looking to acquire distressed assets, but those opportunities have been few and far between," he said in a phone interview from New York. "That's been leading to bidding more aggressively for some of these core assets."

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No 'Armageddon Scenario'

Record-low interest rates make it easier for owners to hold a distressed property, said Tom August, president and chief executive officer of Equity Office Properties, a unit of Blackstone Group LP. Equity Office owns more than 60 million square feet (5.6 million meters) of so-called Class A office properties in cities including Boston, New York and Los Angeles.

"The Armageddon scenario that several people predicted two or three years ago just hasn't occurred," August said in a phone interview from Chicago. "Part of it is the lenders realize the current borrowers are in a better position to work out problems than they the lenders are."

Landlords will eventually need more money to maintain or lease their properties, likely triggering more sales, he said.

There is little incentive for owners who bought as the market climbed to sell now. Values in April were down 41 percent from their October 2007 peak, according to the Moody's/REAL Commercial Property Price Index.

Four Markets

Demand for properties is strongest in New York, Boston, Washington and San Francisco, "where domestic and foreign investors alike have sought to acquire high-quality assets," said Chandan.

Those four markets accounted for 20 percent of first-half sales, compared with about 15 percent last year, according to Real Capital. For office buildings, the largest category, the cities made up almost 35 percent of the volume, up from almost 32 percent in 2009.

Manhattan totaled $2.92 billion of completed sales in the first half, up 70 percent from a year earlier. About $1.42 billion were office deals, up 62 percent.

SL Green Deals

SL Green Realty Corp., New York's largest office landlord, was both a buyer and seller. The company agreed in May to sell a 45 percent stake in Manhattan's McGraw-Hill Building at 1221 Avenue of the Americas to Canada Pension Plan Investment Board for $576 million, a deal that values the building at about $500 a square foot, according to Real Capital.

It also purchased 600 Lexington Ave. for $636 a square foot, and agreed to buy 125 Park Ave., a tower across 42nd Street from Grand Central Terminal. That deal was valued at about $507 a square foot, based on data in a company statement.

Those prices reflect a rebound off market lows reached last year, when similar midtown Manhattan properties sold for about $350 a square foot, said Chandan. In 2006 and 2007, readily available loans that were packaged and sold as commercial mortgage-backed securities helped drive prices for top Midtown skyscrapers beyond $1,000 a square foot.

"We basically went around the world talking to capital sources, in Asia, Europe, Middle East, Canada, and domestically, and hearing the same thing," said Andrew Mathias, SL Green's president and chief investment

officer. “People’s confidence in Manhattan was not at all shaken, because of the extraordinary supply/demand metric that exists here, where you have very, very limited new supply, and the interest rate environment.”

Monsanto Purchase

The company paid $523 million for its two acquisitions, combining both closed and contracted deals. Its sales of partial property interest totaled $663 million.

The biggest completed deal of the year so far was Monsanto Co.’s purchase of Chesterfield Village Research Center, a research and development complex in Chesterfield, Missouri, from Pfizer Inc., according to Real Capital. Monsanto paid $435 million, said Kelli Powers, a spokeswoman for the St. Louis- based company.

Distressed building sales probably will remain scarce, Chandan said. There are $184.6 billion of troubled properties facing foreclosure or bankruptcy, out of a total $239 billion since the credit crisis started in 2008, according to a June 1 Real Capital report.

“There’s tons of liquidity out there,” said Barden Gale, chief executive officer of JER Partners, a McLean, Virginia-based company with about $500 million available for investment. “The trouble is it’s having a problem finding a place to reside.”

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Lease Leverage: How Can Creditworthy Tenants Maximize Their Bargaining Advantage?
有信譽的房客如何提高自己的議價優勢？

By Steven D. Sallen and Kasturi Bagchi (CIRE Magazine)

For tenants, however, this creates an opportunity, especially for those that are fiscally stable and have short lease terms remaining or other circumstances that make viable a threat to vacate. These tenants are in a position to use their leverage to renegotiate their existing leases. Here are some negotiating points that tenants should consider and to which landlords must be prepared to respond.

Quid pro Quo
Tenants who demand lower rental rates should be prepared to offer something of value in return. Most landlords cannot afford to reduce their rental income with no quid pro quo. They have mortgages to pay, and their lenders are unlikely to offer concessions in this climate.

Tenants have several options to propose to landlords in return for rent concessions, including offering to extend their lease terms. It will be far easier for a landlord to justify a rental reduction in the short term if the contracted rental stream continues beyond its original term. Another option is timed rent escalations, perhaps even returning to pre-concession levels.

Operating expenses is another area for negotiation. Many landlords may want or need the added certainty that operating expenses will not increase; therefore changing a gross lease to a triple net lease which assigns to tenants responsibility for operating costs — may give a landlord confidence that it won't be damaged on the back end by operating expense inflation.

Tenants also can offer a personal or affiliate guaranty, sometimes known as a good guy guaranty, which ensures rent payment if the tenant defaults and fails to immediately yield possession of the leased premises.

Landlord Finances
Tenant improvements usually are a part of new leases or lease amendments, but in today's economy, tenants may wonder if the landlord can afford to pay for promised improvements. In such instances, tenants may need to examine a landlord's financial statements. In the old economy, such financial analysis always was downstream and almost never upstream to the landlord. But a landlord may be a mere shell for a limited liability company whose only asset is the building. Add to that the likelihood that the building's equity is probably eroded, and tenants may have little recourse if the landlord cannot perform a TI build-out.

Depending on the bargaining strength of the parties, a tenant may demand certain protections. For example, the landlord could commit TI dollars in advance by depositing funds in escrow, or obtain a letter of credit naming the tenant as the beneficiary. However, a letter of credit or escrow may be considered part of a debtor's estate and could be seized if the landlord files for bankruptcy.

Another option is to establish a right of off set against rent if the landlord fails to complete the improvements. Parties also could agree to a reduced rent upfront and make the tenant responsible for the improvements. In such cases, landlords must make sure tenants do not take advantage of the rental reduction and do nothing to better the space.

A landlord's failing financial strength also may lead to deterioration in building and common area maintenance. Tenants concerned about a landlord's ability to maintain and make timely repairs may want a self-help right to maintain and off set costs against rent to cover the incurred expenses. Tenants also may need to consider mwhat

levels of building maintenance and other services will be continued if the building winds up in foreclosure and/or receivership.

Default Issues

Tenants should confirm if the landlord has a mortgage and if there is a current or potential likelihood of mortgage default. If yes, tenants should review lease terms to determine if a non disturbance agreement in favor of the tenant is in place or can be obtained room the lender. A non disturbance agreement assures that the lease stays in place (so long as no default exists) even if the lender forecloses its mortgage. Lenders typically are receptive to such agreements because they help ensure that the tenant will pay rent directly to the mortgagee after a loan default. Tenants also should ask the lender to provide a duplicate notice of mortgage default, and, in certain cases, such as a single-tenant building, a right to make direct payments to the mortgagee, with a corresponding credit against the rent.

Typical loan documents prohibit landlords from amending leases (especially for a rental concession) or entering into new leases without a lender's consent. Thus, in assessing leverage, tenants should determine ahead of time how many parties will be sitting at the bargaining table and be aware that dealing with lenders on these issues can take time, patience, and sometimes money.

Tenants negotiating new leases or amendments to existing leases for single-tenant buildings might ask for an option to purchase the leased premises. However, lenders of en consider such options as an impediment to their foreclosure rights. Therefore, lenders may withhold their consent to purchase options within a lease without additional provisions.

Often the option specifically must provide that it cannot be exercised against a successor landlord such as a lender after foreclosure or, at a minimum that the purchase price must pay off the mortgage in full.
As with any negotiation, leverage points can be anticipated by being prepared. Tenants as well as landlords — should plan a strategy for success in advance, indentifying all the players involved and the potential obstacles. In today's climate both parties must be creative, and above all, make the deal a win-win for all concerned.

The Recent Baby Room is Translating into a Retail Expansion of Children's Clothing Stores
最近的嬰兒潮導致兒童服裝店的擴張

(CIRE Magazine)

The recent baby boom is translating into a retail expansion of children's clothing stores. Atlanta-based Carter's, which also owns the OshKosh B'gosh brand, is moving beyond the outlet malls into strip and lifestyle centers, according to an Atlanta Journal-Constitution report. It plans to add 45 new stores this year and 55 in 2011. Its competitor, Children's Place, announced on CNBC plans to open 65 new stores in the Midwest. It also has created a new prototype store that costs 40 percent less to build, according to CEO Jane Elfers, allowing it to enter smaller towns and strip malls.

Wells Fargo Laying Off 3,800, Closing 638 Stores
富國銀行的金融部門將關閉 638 個門店，裁員 3800 名員工

By Andrew Deichler (CoStar)

Wells Fargo & Co. said last week that it is restructuring its Wells Fargo Financial division. As a result, the bank will close its 638 Wells Fargo Financial stores in the United States and stop originating non-prime portfolio mortgage loans. The division's remaining loan products will be integrated into Wells Fargo's other business units.

Due to the consolidation, more than 3,800 Wells Fargo Financial employees will lose their jobs by this time next year. 2,800 employees are slated to be laid off in the next 60 days, with the remaining 1,000 job cuts coming in the next 12 months.

The restructuring stems from Wells Fargo's 2008 acquisition of Wachovia. With more than 6,600 Wells Fargo and Wachovia community bank stores and 2,200 Wells Fargo Home Mortgage locations, Wells Fargo determined that there was no longer a need for a separate network of financial offices. According to the bank, less than 2% of its real estate loans were originated in Wells Fargo Financial stores in the first quarter.

"The economics of a separate Wells Fargo Financial channel are no longer viable, especially now that our customers have access to the largest banking and mortgage store network in the United States," said David Kvamme, president of Wells Fargo Financial.

None of Wells Fargo's community banking or home mortgage stores would be affected by the restructuring, the bank said. Instead, Wells Fargo Financial customers' loans will now be handled at these locations, as well as through phone banks and the company website.

Wells Fargo estimates that it will incur pre-tax charges of $185 million, including $137 million in severance costs for the second quarter. The remaining charges are expected to hit primarily in the third quarter. Wells Fargo believes that ongoing savings will offset these charges in less than two years.

"We know that this decision will be extremely difficult for those dedicated team members and their families who will be affected," said Kvamme. "We have already identified positions for thousands of our employees and are committed to finding new positions for as many impacted team members as possible."

CoStar Reports Office Markets Have Bottomed
CoStar 的年中報告顯示辦公樓已達谷底

By Mark Heschmeyer (CoStar)

Fundamentals in U.S. office markets appear to have stabilized and are headed toward an expected recovery, according to CoStar Group in its The State of the U.S. Office Market: Mid-Year 2010 Review & Forecast.

In its detailed quarterly analysis of the U.S. office market, CoStar Group confirmed positive net absorption for the quarter and office vacancy rates that appear to have peaked and are no longer rising.

"As we anticipated two quarters ago, it now appears we have hit the bottom of the market in terms of vacancy and that is critical here in this business," said Andrew Florance, CEO of CoStar. "The fact that we are clearly showing some sort of bottom and we don't have a significant increase in vacancy this quarter is very positive news."

In presenting the latest findings based on CoStar's research, Florance sought to dispel confusion over the office market's performance that may have resulted from conflicting media reports.

"I think there may be some conflicting news [about vacancy rates] here and there," Florance continued. "I saw something the other day saying that vacancy rates were still going up and were expected to continue to do so for another year or more. I think that is just wrong. I think this is big news and it's important."

Of the 20 largest office markets, eight posted positive net absorption so far this year, three had little or no change and nine posted negative net absorption. Washington DC led the country with 2 million square feet of net absorption followed by Denver with 1.6 million and Minneapolis with 1.3 million. New York City was the biggest loser at 2.8 million square feet of negative net absorption, Los Angeles with a negative 2 million and Philadelphia at negative 1 million. But even the markets experiencing negative absorption were doing so at much reduced levels compared with last year.

Importantly though for New York, all of the negative absorption occurred in the first quarter, while the market absorbed more than a half a million square feet in the second quarter and as a result saw its vacancy rate decline one-tenth of a percent.

Similarly, across the country, the quarterly change in vacancy rate has been rising at a less rapid rate and appears to have stabilized, approaching zero percent change.

New York, Long Island and Minneapolis are all now reporting single-digit vacancy rates, 9% or less in fact.

Much of the highest office vacancies (17% or higher) are found in markets in the South and Southwest (Atlanta, Dallas/Fort Worth and Phoenix), while Detroit continues to suffer through the lackluster automotive demand. The good news, though, is that all of those markets saw office vacancy rates decline about one-tenth of a percent or more in the second quarter. In addition, more U.S. office markets posted positive absorption in the second quarter than in the first quarter.

At the current pace, if the current absorption and delivery trends hold, CoStar projects the office vacancy rate will fall from 13.6% to less than 11% in 2013.

Asking office rents, while continuing to dip in the second quarter, are declining much less sharply than they had for the previous four quarters. At the current pace, asking rents could fall another 4% or so before flattening out and turning positive in 2011. In fact some markets have begun to experience increases in asking rent, including in such markets as Boston, New York, San Francisco, Seattle and Washington DC.

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CoStar Group highlighted two economic trends that are helping to support office market fundamentals.

The first is a historically low pipeline of new delivery of inventory. In fact, with building conversions and obsolescence factored in, the U.S. office market could see overall negative inventory growth in 2011 and 2012 - an unprecedented occurrence. That means that office markets are actually shrinking.

Not only is there very little new office product being built, there likely won't be for some time as new office construction starts are also at historically low levels - less than 5 million square feet in each of the last three quarters.

CoStar also pointed to other current economic factors constraining new office supply.

"One of the things playing into all of this is the current lending standards (for funding new development)," said CoStar Senior Director of Research & Analytics Jay Spivey. "With the financial crisis, we've had tightening lending standards that are having an impact on construction financing and likely will continue to have an impact over the next few years and restrain construction in the near term."

"The inventory of commercial real estate in the United States right now is contracting and if you have any job growth or positive absorption coming along with that, you have falling vacancy rates," Florance said.

Also according to Florance, office employment growth has been one of the bright spots this year. While the overall the number of unemployment is high and may yet increase, there has been positive job growth in the office sector. Professional and business services added 360,000 jobs in the last three quarters; government workers increased by 290,000. Layoffs in the financial services and information sectors have only amounted to about 161,000 positions.

"From a commercial real estate perspective, as long as you have any net job growth, it is eating away at the vacancies out there," Florance said. "The most important thing here is that this positive employment growth in the office sector will be reducing standing inventories of (available) space."

Vice President of Analytics Norm Miller noted how the return among lenders to "1970's levels of loan-to-value ratios" has worked to the advantage of equity investors able to acquire high quality office property at a substantial discount to replacement cost.

"Office rents will trend up following a few quarters of positive absorption and we expect to see a return of NOI growth in office properties over next several years, which should attract larger numbers of investors," said Miller.

Pace of Hotel Investment Deals Quickens
基礎的加強、商務旅遊的增長和出售產業的短缺令酒店物業的買賣加速

By Randyl Drummer (CoStar)

Investors are demonstrating confidence that the hotel sector is rebounding at midyear, shelling out large sums for marquee properties from Manhattan to Atlanta to San Francisco.

Analysts believe the lodging market is entering one of those rare moments of equilibrium where both buyer and seller enjoy opportunities. The uptick in sales is occurring after the hospitality sector, hit by dramatic declines in revenue per available room (RevPAR), saw property sale prices crater like no other commercial property category.

But now RevPAR declines are waning and hotel prices are starting to firm up after falling as much as 50% from their 2006-07 peaks. Investors seem intent on taking advantage of bottom-of-the-cycle prices to establish a foothold in the recovering market, although most properties are trading well below replacement costs and historical valuations.

Sellers, meanwhile, are cashing in on the dearth of quality product on the market, improved borrowing conditions and the willingness of buyers to accept lower initial yields.

So far, most of the recent hotel sales activity is concentrated in high-quality assets in prime markets, according to preliminary sales comparables and other data tracked by CoStar Group. At least $2.59 billion in hotel properties traded hands in 236 transactions in the first six months, compared with $1.82 billion in 231 deals during the same period last year. Hotel sales, as a percentage of investment volume in the overall CRE property sector, has increased from less than 8% at the peak of the market to more than 10% this year.

However, many of those deals involve distressed properties. More than one-third of hotel transactions that closed through June 30 involved distress conditions, such as foreclosure or deed in lieu, real-estate owned (REO), auction or short sales. And analysts say banks are more willing to unload troubled hotel assets, which are more expensive to maintain on their balance sheets than offices or apartments, which may result in an even greater pace of sales in the second half of this year.

There were 142 non-distressed transactions in the first six months of 2010 totaling $1.3 billion in dollar volume, compared to 156 non-distressed assets trading for $782 million during the first half of 2009. Meanwhile, $1.29 billion in distressed properties sold in first half on 94 deals, compared with $1.04 billion in first-half 2009 on 75 transactions.

"The numbers show the level of distress is extremely high in terms of the number of transactions, and that’s not surprising," said Jeff Myers, real estate economist and hotel specialist for CoStar Group. "But you’re also starting to see the higher value, more desirable properties being traded in New York, Washington, D.C., San Francisco and other markets. There’s been a lot of interest in hotels as an opportunistic play lately."

"You’re not going to get a cheap price-per-key like you would in ‘No Place, Texas,’ but it’s a good time to pick those up if you have a motivated seller."

The hotel market is experiencing some of the same bifurcation between trophy and troubled properties seen in the office and apartment sectors, Myers said. But he expects distress sales will likely continue to rise as a percentage of all hotel sales through the rest of the year.

"We recently sold a resort in Napa [Calif.] and 70% of their business was group business and corporate incentive. They really got kicked the last couple of years; the business just kind of went away," said Robert Eaton, executive managing director, U.S. Hotel Practice, for Colliers International's PKF Capital. "The high-end corporate outings that were availing themselves of the Four Seasons and Ritz Carltons and the luxury tier have had to undergo a restructuring. Those properties were hit so hard on a mark-to-market basis and the values dropped so precipitously that investors are able to buy them on an amount-per-pound basis. I don't think buyers are underwriting them on any current income, they're underwriting on replacement cost."

The buyers include REITs, pensions, private equity funds and sovereign wealth funds. Publicly traded lodging companies have reported an acceleration of business travel in May and June, increased group bookings and growing strength in vacation travel, and many are positioned to beat initial second-quarter Wall Street estimates, according to analyst reports.

Citigroup analyst Joshua Attie noted that private hotel transactions have recently accelerated and the momentum is likely to continue into 2011, with sellers eager to recycle capital after two years of abnormally low deal volume.

Bidding on high-quality hotel assets is increasingly competitive due to the limited number of such hotels on the market and the weight of equity capital on the sidelines, resulting in a "significant pent-up demand for hotel acquisitions," according to a report by a team headed by Arthur Adler, managing director and CEO-Americas of Jones Lang LaSalle Hotels. The capital includes new hotel opportunity funds and several new REITs have been formed, including Pebblebrook, Chesapeake, Chatham, which have already announced a number of acquisitions.

The rush by potential buyers ready to accept low going-in yields has created a "synthetic seller's market," according to JLL. On transactions that Jones Lang LaSalle Hotels has recently put on the market, bidders have responded with between 10 and 30 first round bids, and second or final-round bids have generally been 10-20% higher than first-round bids. Three years ago, second or final round bids in deals arranged by JLL were about 5% higher.

Meanwhile hotel owners seeking to raise capital and increase liquidity are expected to take advantage of the heightened competition among bidders to evaluate the selective sale of their non-core assets, the JLL report said.

Over the next six to 12 months, there will continue to be a limited-but-growing stock of quality assets brought to market. The advantage of sellers may erode as special servicers, banks and other sellers bring more distressed hotel assets to market, JLL said.

Capitalization rates have begun compressing for deals involving high-quality assets, reflecting a scarcity premium for higher-quality assets and buyer expectation that fundamentals will continue to improve. Rather than looking strictly at 'going in' cap rates, buyers are looking more at such metrics as price per key, discount to replacement cost, five- to seven-year initial rates of return and yield on stabilized income in order to value the assets, JLL said.

"Because the luxury section of the market took such a hit on RevPAR, it's likely if we see any kind of economic growth, we'll see a nice uptick in those assets," PKF's Eaton said. "The general philosophy is, 'if I can buy an asset in a reasonably historically strong market at well below replacement cost, I'll be able to get out of the asset some day and presumably not lose money.'"

On the distressed property front, banks find it more difficult to hold hotels, which are more expensive to operate, and will likely unload troubled hotel assets as investor interest in the class rises and banks continue to repair their bottom lines, CoStar's Myers added.

This year's positive hotel demand may bode well for next year's office market. While the year-over-year change of room rates is still in the red, the pace of its decline is slowing markedly, according to CoStar senior quantitative analyst Omena Ubogu. Demand for hotels has led that for offices by two quarters with a relatively tight 0.72 correlation over the past 20 years, Ubogu said.

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Corporate travel accounts for a significant portion of hotel demand. Companies cut back on staff, space and travel during recessions. When business conditions improve tend to send more people on the road, thus hotels can be viewed as a leading indicator of office market trends and they are sending positive signals.

CoStar deal activity shows a variety of high-end hotel properties trading in recent weeks, several of them under distressed circumstances:

- Danske Bank sold the historic Knickerbocker Hotel in New York City in a distress sale to Highgate Holdings, in partnership with Ashkenazy Acquisition Corp. and Crown Acquisitions. The joint venture purchased the landmark building, built by legendary businessman John Jacob Astor IV in 1906, for $180.5 million. The 16-story, 300,000-square-foot building, now known as 6 Times Square, is located at 1466 Broadway in the Penn Plaza/Garment District. Danske Bank took over the property in March after owner Istithmar World Capital, a branch of Dubai World, defaulted on its $300 million mortgage.
- Maryland-based DiamondRock Hospitality Co. acquired The Hilton Minneapolis from joint venture for $155.5 million, or nearly $190,000 per room. The 25-story, 821-room hotel at 1001 Marquette Ave., built in 1991, is the largest hotel in Minnesota. "The hotel was purchased on accretive metrics and is expected to achieve strong growth potential," said Mark W. Brugger, CEO of DiamondRock Hospitality.
- Chesapeake Lodging Trust agreed to purchase the 430-room Boston Marriott Newton in Newton, MA, for $77.25 million, or about $180,000 per room, in a deal set to close by the beginning of next month. The 560,777-square-foot hotel is about 10 miles west of Boston in Middlesex County. The Procaccianti Group acquired the Marriott from Host Hotels & Resorts Inc. in June of last year for $29 million, or about $67,442 per room. "RevPAR in the greater Boston market is up 13.3% year-to-date through May 2010," said James L. Francis, president and CEO of Chesapeake. Annapolis-based Chesapeake, which went public in January, also recently closed its $46 million purchase of the 188-room Hilton Checkers Los Angeles hotel.
- InterContinental Hotels Group sold its 422-room, 21-story InterContinental Buckhead Atlanta property to Pebblebrook Hotel Trust for $105 million, or about $248,815 per room. Pebblebrook, a Bethesda, MD-based hotel REIT, funded the purchase with cash from its December IPO. Pebblebrook bought the hotel in the Upper Buckhead submarket with plans to invest $7 million in capital improvements to guestrooms, meeting space and public areas. While the Buckhead hotel market, like the national hotel market, has been significantly impacted by the economic downturn, hotel supply remains more constrained than Atlanta as a whole.
- Pebblebrook, looking to acquire other upper-upscale properties in the nation's 20 largest markets, also entered into an agreement in late May to purchase the Sir Francis Drake Hotel at 450 Powell St. in San Francisco , CA, from Chartres Lodging Group for $90 million. The 23-story, 416-room Sir Francis built in 1930 is burdened by a $37.45 million debt maturing in July. The loan securitized through Credit Suisse First Boston Mortgage Securities was transferred to special servicer Wachovia Bank.
- Starwood Hotels said in April that it has completed the sale of two Midtown Manhattan hotels. St. Giles Hotels has purchased the W New York - The Court and W New York - Tuscany for $78 million, or $243,750 per room. Located on 39th Street near Lexington Avenue, they were among the first properties to be operated under the W banner.

1Q10 Commercial Loan Origination (Mortgage Bankers Association)
2010 年第一季度的商業地產貸款數量

(CIRE Magazine)

1Q10 Commercial Loan Origination				
Property	**1Q10**	**1Q09**	**YOY % Change**	**Average loan size (in millions)**
Multifamily	49	51	-5	$9.4
Office	35	27	29	$13.4
Retail	85	43	98	$14.5
Industrial	57	80	-28	$9.4
Hotel	20	36	-46	$12.3

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

(Wall Street Journal)

	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	0.52	0.53	0.54	0.25	-0.01	-4.84
Money market, annual yield	0.75	0.75	1.23	0.74	-0.48	-3.06
Five-year CD, annual yield	2.48	2.51	2.71	2.48	-0.13	-2.60
30-year mortgage, fixed	4.73	4.77	5.68	4.73	-0.87	-1.69
15-year mortgage, fixed	4.20	4.24	5.06	4.20	-0.72	-1.95
Jumbo mortgages, $417,000-plus	5.63	5.68	6.78	5.63	-1.15	-1.04
Five-year adj mortgage (ARM)	3.97	3.98	4.96	3.79	-0.81	-2.11
New-car loan, 48-month	6.26	6.40	7.47	6.26	-0.98	-0.76
Home-equity loan, $30,000	5.15	5.15	5.87	5.12	-0.66	-1.63