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CCIM Predicts 2010 Q3 Investment Environment
CCIM（國際註冊商業資產投資師）預測 2010 年第三季度的投資環境

CCIM Quarterly Trends – 2010 Q3

According to the July 28, 2010 Beige Book, commercial and industrial real estate markets continued to struggle in all 12 districts during second quarter, with vacancy rates ranging from flat to slightly increased and exerting pressure on rents. According to the FOMC, the outlook for commercial and industrial real estate remains uncertain.

Lending Continues to Stabilize
The banking system has improved greatly since the beginning of the recession, and according to the FOMC, loss rates on most types of loans seem to be peaking. However, many banks continue to have a high number of troubled loans on their books, and bank lending standards remain tight. With credit demand weak and with banks writing down problem credit, bank loans outstanding have continued to contract, which is particularly difficult for those small businesses that depend on bank credit.

As for the number of troubled loans, the loan delinquency rate continues to increase. According to Moody's, the delinquency rate for commercial mortgage-backed securities (CMBS) reached 7.71 percent, with a 3-month increase of 129 basis points. The hotel sector leads the way in delinquency rates, with 13.75 percent of loans defaulting, followed by the multi-family sector at 13.19 percent. The retail, office, and industrial sectors are more stable, with loan default rates of 6.18 percent, 5.92 percent, and 5.42 percent, respectively.

On a regional basis, the South and the West continue to have the highest number of loan defaults, climbing to 9.63 percent and 8.89 percent, respectively. Defaults in the East increased slightly, but the East region continues to be the most stable, with a default rate of 5.92 percent, followed by the Midwest region with a default rate of 8.12 percent.

Unfortunately, almost every weekend we hear of several more banks closed by the Federal Deposit Insurance Corporation (FDIC). Just recently, the number of failed financial institutions passed the 100-mark for the year. This time last year, the number of failed banks numbered 64. There is more pain to come too, as the number of problem banks on the FDIC's list of troubled banks continues to increase, totaling 775 at the end of first quarter 2010.

How CCIM Members View Real Estate
Despite the uncertain economic environment and the more than 30-percent average loss in value that this sector has endured during the past couple years, commercial real estate seems to be the ideal asset class for adding stability to an investment portfolio, according to CCIM members. As noted in Exhibit 1, commercial real estate maintained its lead over other investment alternatives, earning a rating of 6.1 on a scale of 1 to 10, with 10 being high, during second quarter 2010. At 5.7, cash earned the second highest rating, while stocks and bonds tied for last place among the investment alternatives.

RERC's institutional investment survey respondents have noted that billions of dollars in funds have been raised to purchase commercial real estate. Since banks have implemented "extend and pretend" programs to restructure loans on what would eventually be considered troubled assets, fewer distressed properties are available to investors at bargain prices, driving prices upward. In addition, top-tier commercial real estate properties have also become increasingly attractive, and investors looking to place capital for such properties are finding a low supply of such properties, along with elevated competition.

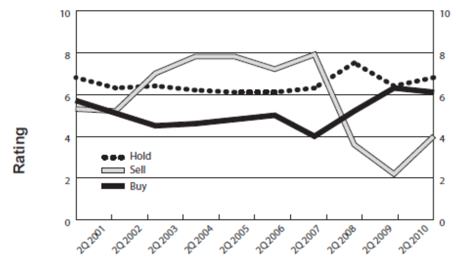
As shown in Exhibit 2, when RERC's institutional investment survey respondents were asked whether to buy, sell, or hold commercial real estate, the predominant answer in second quarter 2010 was to hold. This was the first time in several quarters that holding property was recommended over buying, and with a rating of 6.8 on a scale of 1 to 10, with 10 being high, this was also a slightly higher hold rating than that for the previous quarter. In contrast, the buy rating fell to 6.1 in second quarter from 6.8 in the previous quarter. Although institutional respondents have shifted their views somewhat, they gave the sell option a rating of 4.0, which is still considered a generally weak option.

Exhibit 1. CCIM Respondents Rate Investments

	2Q 2010	1Q 2010
Commercial Real Estate	6.1	6.0
Stocks	4.5	5.1
Bonds	4.5	4.6
Cash	5.7	5.2

Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.
Source: RERC/CCIM Investment Trends Quarterly Survey, 2Q 2010.

Exhibit 2. RERC Historical Buy, Sell, Hold Recommendations



Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.
Source: RERC Institutional Investment Survey, 2Q 2010.

In looking more closely at the individual property sectors, CCIM members increased their investment conditions ratings for all property types during second quarter 2010. As demonstrated in Exhibit 3, the apartment sector continued to receive the highest investment conditions rating, and with a rating of 5.9 on a scale of 1 to 10, with 10 being high, far out-distanced the ratings of the other property sectors. The industrial sector received the second-highest rating at 4.4, while the retail and hotel sectors followed closely, each with a rating of 4.2. At 4.0, the office sector received the lowest investment conditions rating among the property types RERC surveyed.

Exhibit 3. Real Estate Investment Conditions Ratings

	2Q 2010	1Q 2010	4Q 2009	3Q 2009	2Q 2009
Office	4.0	3.8	3.8	3.8	3.5
Industrial	4.4	4.2	4.1	4.3	4.3
Retail	4.2	3.7	3.8	3.8	3.4
Apartment	5.9	5.5	5.4	5.5	5.1
Hotel	4.2	3.8	3.8	3.6	3.4

Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.
Source: RERC/CCIM Investment Trends Quarterly Survey, 2Q 2010.

The return versus risk rating for commercial real estate overall increased to 5.4 on a scale of 1 to 10, with 10 being high, as reported for second quarter 2010 and shown in Exhibit 4. Although the return for investment in commercial real estate slightly outweighs the risk for this asset class, investors remain cautious.

The apartment sector retained the highest return versus risk rating, and as noted in Exhibit 4, this was the only property type with a return versus risk rating above 5.0 on a scale of 1 to 10, with 10 being high, during second quarter 2010. The office, industrial, retail, and hotel sectors were rated lower than 5.0, indicating that the risk for these property sectors is greater than the return. At 4.8, the industrial sector earned the second highest rating, followed closely by the retail sector, which saw the biggest rating increase from the previous quarter. The office and hotel sectors received the lowest ratings, at 4.4 each, indicating that while the ratings are still low, CCIM members are beginning to see more potential for returns from these sectors for investors who can take the risk.

CCIM members lowered their rating for value versus price for commercial real estate overall to 5.2 on a scale of 1 to 10, with 10 being high, during second quarter 2010, also shown in Exhibit 4. Although the rating has declined, CCIM members believe that the value of commercial real estate is slightly greater than the price of this asset class.

Exhibit 4. Historical Return/Risk and Value/Price Ratings

	2Q 2010	1Q 2010	4Q 2009	3Q 2009	2Q 2009
Return vs. Risk					
Overall	5.4	5.1	4.8	5.0	4.7
Office	4.4	4.1	4.1	4.2	4.0
Industrial	4.8	4.7	4.7	4.9	5.0
Retail	4.7	4.1	3.9	4.0	3.6
Apartment	6.2	6.1	5.8	5.8	5.2
Hotel	4.4	3.9	3.9	3.8	3.4
Value vs. Price					
Overall	5.2	5.5	4.7	4.8	4.9
Office	4.7	5.0	4.3	4.4	4.5
Industrial	5.1	5.0	4.7	5.0	4.9
Retail	4.5	4.9	4.2	4.4	4.3
Apartment	5.2	5.6	4.9	5.3	4.8
Hotel	4.7	4.7	4.0	4.1	3.9

Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.
Source: RERC/CCIM Investment Trends Quarterly Survey, 2Q 2010.

The value versus price rating for the apartment sector declined to 5.2 on a scale of 1 to 10, with 10 being high, during second quarter 2010, with the sector barely retaining its highest ranking. The industrial sector was the only property type where the value versus price rating increased during the quarter, earning it the second highest rating of 5.1. The ratings for the office and retail sectors decreased to 4.7 and 4.5, respectively.
The value versus price ratings for the hotel sector did not vary from first quarter 2010 to second quarter.

CCIM members believe that price is generally greater than the value of office, retail, and hotel properties, which indicates that confidence remains low. Transaction volume increased for all property types in second quarter 2010 on a 12-month trailing basis. Volume increased the most for the office sector, with a nearly 30-percent increase over first quarter volume, while the property type in which transaction volume increased the least during second quarter was the industrial sector. The 12-month trailing size-weighted average price per square foot/unit increased in the office, retail, apartment, and hotel sectors during second quarter, but declined slightly in the industrial sector. In addition, the 12-month trailing weighted average capitalization rates declined for the office, apartment, and hotel sectors, but increased for the industrial and retail sectors.

The Dow Jones Industrial Average (DJIA) declined drastically for the year, falling 5.0 percent to 9,687 by June 30, 2010, and the lowest it had been since August 2009. As shown in Exhibit 5, the other stock market indices also showed losses for the year.

However, the major U.S. stock indices saw significantly higher readings in July 2010, generally reporting their biggest monthly gains in a year, as the majority of corporate earnings surpassed expectations. These stock market increases came in spite of the avalanche of weak economic data reported in July, which showed the recovery, is slowing.

With such volatility in the stock market, the stability that commercial real estate offers investors is even more valuable, and the second quarter 2010 returns reported by the National Association of Real Estate Investment Trusts (NAREIT) and the National Council of Real Estate Investment Fiduciaries (NCRIEF) in Exhibit 5, look attractive in comparison.

Exhibit 5. What Do the Financial Markets Tell Us?

Compounded Annual Rates of Return as of 6/30/2010

Market Indices	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Consumer Price Index[1]	-0.28%	1.13%	1.53%	2.30%	2.34%	2.38%
10-Year Treasury Bond[2]	3.60%	3.43%	3.62%	4.04%	4.31%	4.87%
Dow Jones Industrial Average	-5.00%	18.94%	-7.39%	1.66%	1.68%	7.52%
NASDAQ Composite[3]	-7.05%	14.94%	-6.77%	0.50%	-6.12%	5.59%
NYSE Composite[3]	-9.96%	9.56%	-13.14%	-2.16%	-0.49%	5.06%
S&P 500	-6.65%	14.43%	-9.81%	-0.79%	-1.59%	6.24%
NCREIF Index	4.10%	-1.48%	-4.70%	3.79%	7.16%	8.78%
NAREIT Index (Equity REITS)	5.56%	53.90%	-9.00%	0.20%	9.86%	9.76%

[1]Based on the published data from the Bureau of Labor Statistics (Seasonally Adjusted).
[2]Based on Average End of Day T-Bond Rates.
[3]Based on Price Index, and does not include the dividend yield.
Sources: BLS, Federal Reserve Board, S&P, Dow Jones, NCREIF, NAREIT, compiled by RERC.

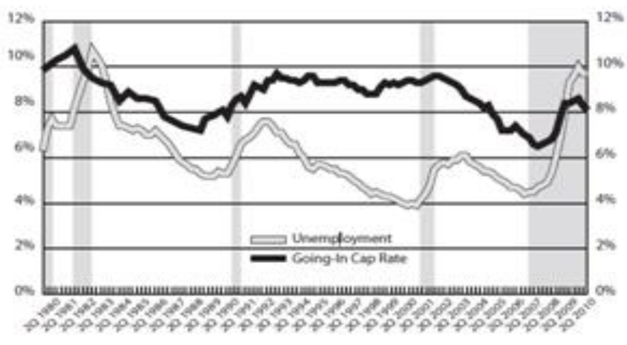
Summary

We are at an inflection point in the current real estate cycle, and while there are strong headwinds facing the economy and the commercial real estate market, we are starting to see some tailwinds with respect to increases in volume and pricing. Given this environment, RERC concludes:

- GDP is slowing, and while there were growth contributions from business and government in second quarter 2010, growth from consumers, which comprises approximately 70 percent of the economy, is lacking. Until we see consumer spending strengthen, growth will be minimal.
- The unemployment rate is expected to remain at or near current levels throughout the remainder of the year. Private businesses seem to be in no hurry to start hiring until demand for their goods and services increases.
- In light of the slowing in the economy, interest rates are expected to remain at current low rates throughout the rest of the year.
- Investors wary of the volatility driving the stock and bond markets are turning toward the stability of commercial real estate and reliable cash flows to help round out their portfolios.
- Bank lending remains tight, but much private capital is looking for distressed property at bargain prices, or for high-quality fully-leased properties in top-tier markets at nearly any price.
- The vacancy rate for the apartment sector is starting to decline. Vacancy for the office and retail sectors is expected to remain at current levels or even increase slightly throughout the rest of the year.
- Transaction volume and pricing on a 12-month trailing basis are starting to increase, particularly in the office sector.

Snapshot of Real Estate Market Performance – 2Q 2010

Going-In Cap Rates vs. Unemployment



Sources: RERC, BLS, NBER, 2Q 2010.

Performance Indicator	Recent Data		Impact on Commercial Real Estate
Vacancy Rates	Office: 17.4% Industrial: 10.0% Retail: 10.9% Apartment: 7.8% Hotel: 65% (occupancy)		According to Reis, Inc., vacancy rates for the office and retail property sectors increased during second quarter 2010, while vacancy for the apartment sector decreased. Vacancy in the industrial property sector continued to decline from the previous quarter, according to the CoStar Group. Smith Travel Research reported that hotel occupancy increased during second quarter.
Rental Rates (RERC's surveyed rent growth expectations)	Office: 1.3% to 1.8% Industrial: 0.9% to 1.4% Retail: 0.9% to 1.3% Apartment: 2.2% Hotel: 1.7%		RERC's second quarter 2010 rental rate expectations were slightly higher for the office, retail, apartment, and hotel sectors, when compared to those for first quarter 2010.
Real Estate Returns	**RERC Required Returns:** Office: 8.9% to 9.8% Industrial: 9.4% to 10.1% Retail: 9.1% to 9.6% Apartment: 8.6% Hotel: 11.4%	**NCREIF Realized Returns:** Office: -4.6% to 2.4% Industrial: -4.1% to 2.8% Retail: -0.8% to -0.5% Apartment: -0.1% Hotel: -5.8%	RERC's second quarter 2010 required returns for the retail sector were lower than first quarter returns, while those for the office, industrial, apartment, and hotel sectors were higher. NCREIF's realized returns continued to improve for all property sectors during second quarter, with positive returns being seen in the office and industrial sectors.
Capitalization Rates	**RERC Realized Cap Rates:** Office: 7.2% Industrial: 8.5% Retail: 8.6% Apartment: 6.8% Hotel: 8.7%	**NCREIF Implied Cap Rates:** Office: 6.6% to 7.1% Industrial: 7.3% to 7.6% Retail: 6.9% to 7.7% Apartment: 5.8% Hotel: 5.6%	RERC's second quarter 2010 realized cap rates were lower than first quarter rates for the office, apartment, and hotel sectors, and were higher for the industrial and retail sectors. NCREIF's implied capitalization rates for second quarter were higher in each sector compared to the previous quarter.

Investors Raised $3.85 Bil. Last Month for Real Estate Acquisitions
地產投資基金僅在上個月就集資 38 億美金

By Mark Heschmeyer (CoStar)

Real estate companies and funds reported raising $3.85 billion in July for real estate-related acquisitions. Almost half of the total raised ($1.85 billion) was by commercial real estate-related firms and funds, while pooled investment funds including private equity and hedge funds raised $1.8 billion, according to data compiled by CoStar Group.

Vornado Realty Trust in Paramus, NJ, reported raising the largest amount during the month. The fully integrated equity real estate investment trust announced that it completed the first closing of its real estate investment fund with initial equity commitments of $550 million (including $200 million from Vornado). Vornado said it expects to raise total commitments of $1 billion. The fund is Vornado's exclusive investment vehicle for all real estate and real estate-related investments over the next three years.

Cedar Fair Entertainment Co., a theme parks operator in Sandusky, OH, completed the issuance of $405 million aggregate principal amount senior unsecured notes. Concurrently with the closing, Cedar Fair entered into a new $1.175 million senior secured term loan facility and a new $260 million senior secured revolving credit facility. Cedar Fair used the net proceeds to repay outstanding debt under its previous credit facilities.

Teachers Insurance and Annuity Association, College Retirement Equities Fund (TIAA-CREF) reported raising $396 million in the past year for its TIAA-CREF Asset Management Core Property Fund.

10 Largest Amounts Reported Raised in July

- Sponsor Amount
- Vornado Realty Trust $550,000,000
- Cedar Fair Entertainment Co. $405,000,000
- TIAA-CREF $396,249,116
- Brookfield Asset Management $315,000,000
- Invesco Realty $289,600,000
- Douglas Emmett $249,250,000
- Madison International Realty $187,575,000
- Prosperitas Investimentos S.A. $165,000,000
- Green Courte Partners $119,625,000
- Garrison Investment Management $103,000,000

On a monthly basis, the group having the most fund-raising success was a Brazilian fund raising money in the United States for commercial property investments in Brazil. Prosperitas Investimentos S.A. raised $165 million between the end of June and mid July.

Cole Real Estate Investments also continued to raise approximately $100 million per month through its ongoing offering for shares in Cole Credit Property Trust III Inc. Last month, Cole Credit Property Trust III also completed the $310 million purchase the 583,000-square-foot City Center at 555 110th St. in Bellevue, WA. The building is 99.6% occupied, of which approximately 96.3% is subject to a net lease with Microsoft Corp. that expires in June 2024.

Apple REIT Nine in Richmond, VA, netted raising almost $69 million between mid June and mid July. The hotel REIT, had acquired 11 hotels through the first six months of 2010. Its largest purchase came in January when it purchased a newly constructed Marriott hotel in Houston with 206 rooms for $50.75 million.

Most Money Reported Raised on a Per Month Basis in July

- Sponsor Amount
- Prosperitas Investimentos S.A. $165,000,000
- Cole Credit Property Trust $100,000,000
- Apple REIT Nine Inc. $68,947,933
- Ohio Equity Fund Inc. $57,000,000
- Hines $45,900,000
- American Realty Capital Partners $45,700,000
- TIAA-CREF $33,020,760
- Angelo, Gordon & Co. $30,116,667
- Inland Real Estate Investment Corp. $20,732,513
- Invesco Realty $12,591,304

Institutional, Foreign Investors Target Quality Assets and All-Cash Buyers Jostle for Smaller-Than-Expected Pool of Distressed Properties while Investors Continue to Ignore Middle Market
機構與國外投資者焦點集中在頂級

By Randyl Drummer (CoStar)

While still a far cry from the avalanche some predicted would hit the market a year ago, distressed shopping malls and strip centers have contributed to a marked increase in retail sale activity this year. At the same time, a rush by institutional investors to pick up quality core properties at the other end of the retail property spectrum has also led to an increase in retail property sales in a number of large metro markets, according to CoStar Group data.

Houston, Tampa/St. Petersburg, South Florida, Long Island, Boston, Detroit, Philadelphia, Los Angeles, Denver and Phoenix all reported double-digit increases in retail property sales volume in the second quarter. Distressed transactions as a percentage of overall retail property sales activity continues to rise, albeit as more of a trickle than a flood. Such deals account for as many as one in five sales, which are easily snapped up by opportunistic capital.

Meanwhile, among a second group of investors, a scarcity of core assets coming to the market has resulted in multiple bids, leading to firmer closing prices. These two groups are driving the sales transaction market at present. “At some point, their appetites will be satiated through more product coming to trade and the bifurcation will end, or else they will learn to eat elsewhere,” CoStar Real Estate Strategist Suzanne Mulvee said in a report.

Some larger deals closed in the second quarter, lending some hope that a stronger uptick in trading is on the horizon. Kimco Realty Corp. sold a 33-property retail portfolio, including assets in Florida, Southern California, and the Washington, D.C., area, for $370 million. Simon Property Group acquired a stake in the 2.3 million-square-foot Galleria mall in Houston for an estimated $260 million. In Detroit, the 1.1 million-square-foot Westland Shopping Center mall traded for $80 million, the same price it last sold for in 2003.

In general, these trades involved properties with high occupancies and good credit tenants. The other type of deals getting done today are foreclosure sales and single-tenant, net-leased properties, with few buyers seeming to be willing to take a chance on tenancy risk. This distaste for high vacancies is reflected in the rock bottom discounts some buyers are receiving. In Cincinnati, World Properties picked up the 1.4 million-square-foot Cincinnati Mall for $10.5 million, a surprising $7.50 per square foot paid for an asset that traded for $70 million in 2002. In the Chicago suburb of St. Charles, Moison Investment Co. purchased the 847,000-square-foot Charlestown Mall for $9.5 million, or $11 per square foot.

But who are these investors, many of whom are bidding ferociously for core and core-plus assets as well as deeply distressed shopping centers in big coastal markets in Southern California, New York, Philadelphia and Washington, D.C.? And what will become of the huge "middle market" of troubled and stabilized non-investment-grade properties in secondary and tertiary markets across the country?

CoStar set out to get the views of executives and experts with some of the nation’s largest retail brokerages to measure the depth and prospects of the recovery in retail investment markets. They reported strong and steady activity in the 'extremes' of the retail property -- "extremely well-located and well-tenanted" Class A centers with strong anchors, and "extremely distressed" shopping centers with upside potential, for which investment funds have stockpiled tens of billions of dollars over the last two or three years.

"The retail investment marketplace in Southern California has seen a flurry of activity in the past several months, causing some excitement in what has otherwise been a very quiet year," said Edward B. Hanley, president of Hanley Investment Group Real Estate Advisors, citing two-month period in which the firm has sold seven shopping centers totaling more than $40 million and more than 250,000 square feet. Hanley is marketing three more grocery-anchored neighborhood shopping centers at a price totaling $112 million."

"There seems to be a more steady supply of distressed opportunities in markets outside Southern California," too Hanley added, "and therefore I am seeing evidence of buyers from Southern California chasing those properties."

"In addition to a few high profile bank-owned properties, we have also seen more equity sellers begin to come to the market with institutional quality shopping centers," Hanley said. "Although the market fundamentals for retail properties still have some time left to completely recover, look for retail investment sales activity to increase as investors begin to tire of waiting for the avalanche of distressed opportunities that has failed to materialize. The equity sellers range from partnerships and family trusts to institutional owners. The buyers include syndicated groups, high net worth individuals, some institutional companies and numerous funds."

Factors helping break the stalemate between buyers and sellers include falling capitalization rates and stabilizing pricing combined with positive news from the economy and capital markets that are combining to make now the best time in years to enter the market, some analysts said.

"The flow of distress is not slowing down for one minute," said Donald MacLellan, senior managing director, Faris Lee Investments. "As the economy continues to trudge along with no real recovery in consumer spending and jobs, you're going to continue to see distress, especially with all the loan maturities happening."

That should lead to more investors making the decision to buy, he added.

"The attitude of the investor is completely different now than in 2009. On stabilized assets, there's lending out there, and there's tremendous capital available on the distress side. We're seeing multiple offers on distress throughout the markets, whether it's Phoenix, California or Las Vegas."

MacLellan, along with Faris Lee President Richard Walter, represented Miami-based special servicer LNR in the $11.75 million sale of The Town Center Ontario, a 128,330-square-foot distressed property that was 85% vacant. French company Oxylane Groupe, one of the largest manufacturers of sports apparel and equipment in the world, paid all cash for the 8-year-old center, where it intends to open one of its first U.S. retail locations.

This transaction helps illustrate why the flow of distressed and foreclosed property has been more of a slow mud slide than an avalanche. High vacancy caused the property to fall into receivership 16 months ago. The eventual foreclosure offered buyers the opportunity to acquire it at a much lower basis than those of other competing centers in the area, Walter said. Faris Lee sought out owner-users to address the tenancy issue and worked closely with special servicer LNR. Providing an additional level of complexity, Oxylane Groupe has no U.S.-based personnel, which made making it more time-consuming to qualify it as a buyer.

"In this current market, we're finding that distressed retail transactions require a strategic mix of expertise," Walter said. "The team needs to understand location, market timing and have a depth of experience working with everyone likely to be involved in the transaction including owners, lenders, retailers, servicers, receivers and, in this case, city officials," Walter said.

Hospitality and retail are the two largest and fastest growing areas in the distressed portfolios, MacLellan said. While the disposition of retail real estate by special servicers is much higher in 2010 than in 2009, and continues growing, servicers have only so much capacity and personnel to process transactions. Lenders and servicers can take up to 18 months to move a property from receivership to sale.

"There has been a lack of flow on the distressed side compared to what we thought was going to happen a couple of years ago, just because of the intricacies of CMBS debt and borrowers, who try and restructure the debt and modify the loan," he said. "There's a lot of negotiation, and that takes a while."

"We've seen quite a bit of offer activity on distressed assets," MacLellan said. "There's a pent-up demand and a lot of capital. We have 26 offers on a two-story 25,000-square-foot retail-office deal in South Orange County (CA). It's an REO receivership sale for a CMBS lender and the lender will finance, so we got tremendous interest. We're seeing that across the board, whether it's a higher profile lifestyle center REO or a strip center. We have a single-tenant asset that got nearly 10 offers.

"The offers are coming from all across the board. There are the private, high-net-worth investors who have sold companies and invested in distress. You have overseas money, whether it's strictly an investment group, or in our case, an owner-user. Or you have opportunity funds created in last couple years, developer-operators, value-add -- all of them have been on the sidelines for the last 2-3 years."

MacLellan said there's a pent-up demand also for core retail, stabilized and well-anchored with grocery or drug stores. But there hasn't been much of it on the market.

"The pension funds are chomping at the bit to fund some core retail, but it's not really out there. They'll pay strong prices, but that's just because alternative investments are pretty low. You either see core-plus which is stabilized institutional property, or distressed. Those are the two markets where there is pent up demand and limited supply."

"Both the core and distress are highly desirable. The stuff in between has to be priced right."

There is tremendous pent-up demand nationally for quality retail product and some of it has surfaced to the market or been in off-market situations a fair amount over the last several months, remarked Kris J. Cooper, managing director, capital markets, Jones Lang LaSalle in Atlanta.

"There is actually what we consider a bubble in the market because even though retail has not recovered fully, there is significant downward pressure on cap rates and increasing prices on core product. Cap rates have not gone down to the boom period, but they are aggressive. Most buyers want grocery anchored product which they feel is the most stable."

The core buyers are the combination of institutional, REITs and a few private and foreign, German and others. The distressed buyers are primarily private, Cooper said. Distressed buyers have been very active throughout 2010 and while they have different agendas, they are only paying on in-place NOI.

"The lenders are coming back, so liquidity has somewhat returned to the market, but most distressed buyers are still paying all cash," said Cooper.

"The next 12 to 18 months will see more distressed assets that are finally priced to actually sell, and hopefully more class A, B and C assets.

Alan N. Pontius, national director of commercial leased investment properties for Marcus & Millichap, who now oversees the National Retail Group, said the opportunities to get quality cash-flowing real estate with funds earmarked to produce stable returns on a comparative basis "looks better than ever at the moment."

"What you see is a shortage of quality product, a landscape with low yields, and you have funds with definitive time frames to be invested or they have to be returned. You put all these things together at one time, and that's why you see ferocious bidding on the highest quality assets," Pontius said.

"Even though the economic picture, especially on the jobs front, looks like it's been muted again and growth outlook and the economy continue to be choppy at best, we're still past that horrendous period of late 2008 to mid '09. So if I'm an investor, I'm thinking if we still have some rough patches to work through, I don't think there's heavy downside risk. The interest rate environment is fantastic, the yield is very low and it seems logical that if I lock up truly quality real estate today, it's pretty good timing."

"If I'm a seller and looking at an asset and trying to determine my timing, and this is an asset that's running to the end of its hold period, if I believe I've stabilized that asset today and NOI growth from today to a year from now is nominal, I've got to think this is a great time to enter the market as a seller with a quality asset."

"There is huge demand for quality product right at this minute, and as a seller I can take advantage of that condition."

Buyers are eager to find good quality grocery anchored retail properties with limited risk, added Jones Lang LaSalle Managing Director Margaret K. Caldwell.

"There is a ton of capital chasing these types of deals, but not the same investors that are or were interested in purchasing troubled assets. More institutions are considering selling core assets due to the decline of cap rates to near-historic lows. While cap rates might be close to levels where properties were originally purchased, in many cases the NOI has deteriorated."

Unfortunately, Caldwell said, many potential sellers cannot recover their initial investment.

"If this situation did not exist, there would be more sellers. We are experiencing all types of investors attempting to purchase retail; it just depends on the quality of the deal," Caldwell said.

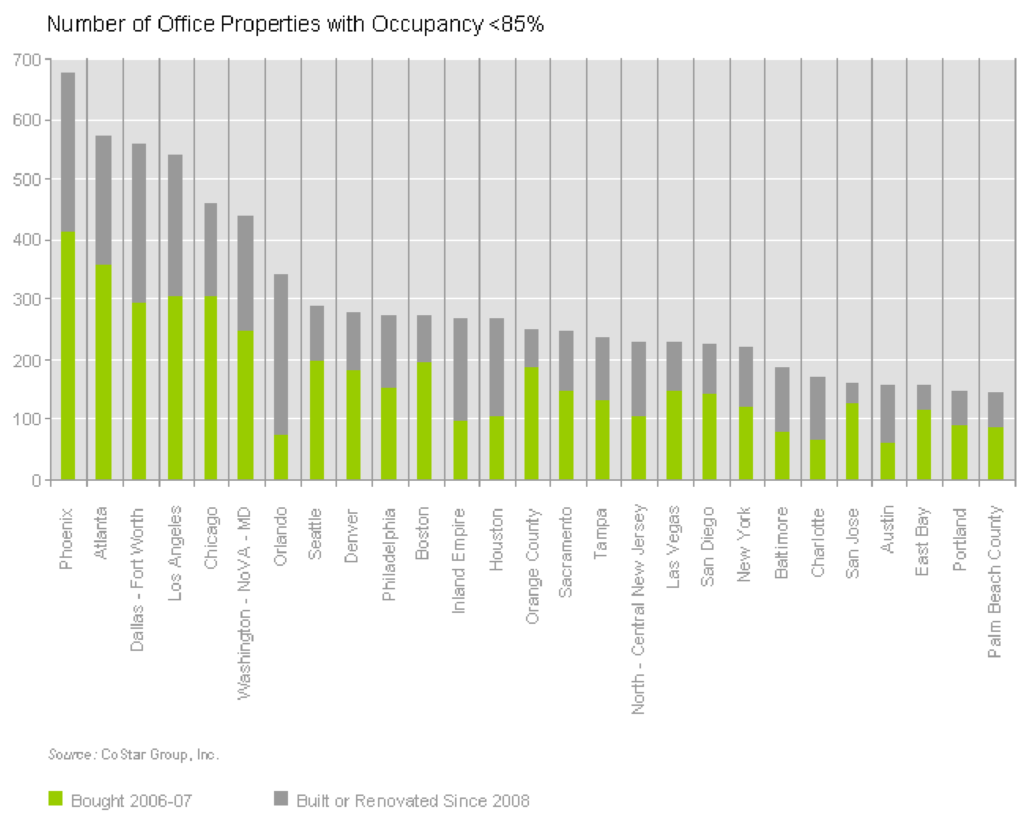
Hunting Office Distress
即便銀行意欲拖延，辦公樓的問題貸款依然會浮出水面

By: Stephanie Hession (WatchList)

Knowing that values remain well below peak levels and that underwriting assumptions during the boom were quite aggressive, we can assume that many office properties purchased in 2006 or 2007 and that have low occupancies today are prime candidates for default. Also, properties that completed since the downturn began and that are still not leased up likely face challenges. Exhibit 1 shows the markets with the most buildings that fall into those two categories.

The top five markets are no-brainers - overbuilt markets with large inventories. Other markets fall into the highly distressed group because of heavy trading at the peak (Seattle, Denver, Boston, and San Jose), while building was more to blame in others (Orlando, the Inland Empire, and Charlotte). In these 27 metros, there are a whopping 7,980 office buildings with occupancies below 85% that traded at the peak or recently completed, and in the PPR54's remaining 27 metros there are another 2,348. Patient investors who are ready to take on some risk should continue to watch these highly distressed markets.

EXHIBIT 1: MARKETS WITH MOST POTENTIALLY DISTRESSED PROPERTIES



Fitch Projects Modest Growth for Retailers
惠譽國際評級公司預計零售業會有些許增長

By Mark Heschmeyer (CoStar)

Fitch Ratings sees increased stability for ratings of U.S. retailers through the end of the year, according to its summer 2010 Retail Register report. In fiscal 2011, total sales are expected to grow 4% for the 27 companies under Fitch's coverage. This reflects modest growth in consumer spending, coupled with benefits from share consolidation achieved during the recession.

"Many U.S. retailers used the recession as an opportunity to make changes to their operations as well as take better control of their operating costs and spending on capital projects to preserve liquidity," said Karen Ghaffari, managing director at Fitch. "These changes helped retailers build stronger liquidity positions and leaner cost structures, which have contributed to improved bottom lines."

For the upcoming back-to-school sales period, Fitch expects positive same store sales growth in apparel and other discretionary categories that are in line with recent trends. This reflects easy comparisons to the prior year through September 2010 and favorable albeit muted growth in consumer spending.

Fitch expects sales will continue to show year-over-year positive growth through the end of 2010 with retail sales for the companies under coverage expected to be up 3% for fiscal 2010.

Ratings in the sector fared relatively well through the recession with the ratings of all but one of the U.S. retailers returning to within one notch of the levels they were pre-recession.

Further rating activity will be driven primarily by sales levels achieved which will be a key factor for profitability and credit metrics. Market share position will be significant in determining whether a company has been fundamentally weakened or strengthened by the recession, as this will be an important rating consideration.

Discounters are expected to continue to benefit in 2010 from consumers looking to maximize value on all purchases, including food and consumables as well as general merchandise. While food and consumable sales continue to be strong, Fitch expects discretionary purchases in departments like apparel and home to pick up as the economy improves. This is expected to result in positive low single-digit comparable store sales.

Fitch expects revenue growth for the supermarket operators will continue to be pressured in 2010 primarily due to ongoing price competition in the sector. Gradual improvement in the pricing environment is expected as the economy strengthens and consumers show increased willingness to accept modest price inflation.

Top-line growth at drug retailers is expected to remain steady or improve modestly in 2010, with overall industry prescription sales growth at about 2% annually, offset somewhat by weakness in front-end sales.

Department store sales are expected to be up about 1% in 2010 and 2011, versus Fitch’s expectation of a decline 1% to 2% in 2010 published at the beginning of this year. Fitch rated department stores are expected to see above industry average growth of 3% in 2010 and 2% in 2011. The improved outlook represents year-to-date performance, with first-quarter revenues up 4.8% and second-quarter results expected to be up 4% as easy comparisons continue through August. For the second half of 2010, Fitch remains cautious on its outlook and total revenue growth is expected to be approximately 2%. These expectations reflect sales weighted comparable store sales growth of close to 5% reported in the first quarter, 3% expected in the second quarter, and a 1% increase expected in the second half of 2010.

Retailers Are Fighting Back Against CAM Charge Errors
要求檢查租金里的公共設施費用的零售商上漲了兩到三倍

By Elaine Misonzhnik (Retail Traffic Magazine)

While retailers' requests for rent concessions have subsided considerably in recent months, they continue to pay close attention to their leases in an effort to cut costs, industry sources say. One area that holds savings potential is common area maintenance (CAM) charges, which can often be miscalculated by the landlord without any ill intent.

At one point in the evolution of shopping centers, CAM charges used to be a fixed expense, says Kenneth Katz, co-founder and principal of Baker Katz, a Houston-based brokerage firm and partner with X Team International, a retail real estate brokerage alliance. However, when landlords started passing increases in operating charges through to tenants, the billing process became more difficult to navigate, creating the need for reconciliation.

Some leases, for example, cap certain CAM charges, while others do not. For example, landlords may have the right to increase CAM charges by a certain percentage every year. In other cases, CAM costs are locked for the duration of a lease. During the boom years, neither side paid much attention to CAM charges. But now that each side is fighting for every extra dollar, many retailers have begun auditing leases on a regular basis to ensure they are not being over-charged, says Katz.

In the past two years, the number of audit requests from retail tenants has increased two- to three-fold, estimates Ed Harris, vice president with Commercial Tenants Services Inc., a New York City-based lease and utility audit specialist. He attributes the increase partly to higher vacancy rates at malls and shopping centers, which have resulted in CAM expenses being shared among a smaller group of tenants. The result is higher costs for every retailer. In addition, existing tenants are more likely to bear the brunt of costs since tenants signing leases in today's market can negotiate more favorable deal terms.

"Existing tenants appear to be embracing CAM compliance audits to ensure that they are not being improperly charged and that they are being billed in accordance with their own, often heavily negotiated, leases," Harris says. "So, yes, we have seen that retail sector inquiries are on a sharp rise. And of course, in today's economy, companies in all sectors are re-embracing their internal cost containment structures."

In order to be able to perform an audit, however, retailers need to have a lease that explicitly allows them to do so, Katz notes. What's more, some leases stipulate that audits can only be performed by third parties that get paid regardless of whether they find billing errors. Some auditing firms bill on a percentage basis—they get a portion of the retailers' savings if they find charges had been inaccurately calculated, but no flat fee.

Retailers also need to be aware that auditing is often a timely process—it takes an average of two months to review one year's worth of CAM charges, according to Harris. If the retailer doesn't have all of its files in order or the audit needs to cover several years, the process can stretch on for months and months.

If the billing process turns out to be inaccurate, however, the savings can be considerable, especially for a retailer with a large store fleet. An error that resulted in a $0.50 overcharge per square foot on a 30,000-square-foot space would translate into an extra $15,000 per year, Katz notes. Harris estimates that CTS finds errors in approximately 40 percent of the leases it reviews. The most common ones include a landlord charging for capital expenses which the lease does not allow; too high fees for mall HVAC; and inaccurate calculations on pro-rata percentages.

"It's very common in leases that there are requirements that controllable common area expenses cannot increase by more than a certain percentage every year," adds Katz. "But many leases do not define what's controllable or uncontrollable. That creates a real grey area. Is landscaping a controllable expense? Is security a controllable expense? And that's where we are seeing more litigation."

So far, landlords have tried to cooperate with tenants on audit requests, but Katz has noticed that they are increasingly entertaining the idea of billing CAM charges as a fixed expense once again. Besides being time-consuming, in cases where the landlord is a publicly traded REIT, audits can impact earnings reports from previous years.

"The complexity of reconciling charges can be overwhelming," Katz says. "It's a real burden on human resources."

Retail Cap Rates Remain Steady in Second Quarter
購物商場的投資回報率在第二季度保持穩定

By David Bodamer (Retail Traffic Magazine)

Cap rates flattened in the second quarter, exhibiting a stabilizing investment climate for retail properties, according to CBRE.

The company's National Retail Cap Rate Report for the second quarter estimates that the national cap rate on retail properties was 8.56 percent—matching its revised figure for the first quarter. (In May, CBRE had reported the first quarter figure as 8.34 percent.)

According to CBRE, "This data suggests the cap rate increases seen since early 2007 may be over for now. Most market participants indicate that rates are expected to remain at current levels or even decline in select markets."

Cap rate trends varied by region. In the East and West regions, cap rates improved with 12 basis point and 37 basis point rate declines, respectively, from the revised first quarter figures to the second quarter. The West figure of 8.06 percent is the lowest for the region since the first quarter of 2009.

Meanwhile, the Midwest—which had posted the largest improvement in the first quarter of 2010 compared with the fourth quarter of 2009—took a step backwards. Cap rates there increased 36 basis points from the revised first quarter figure. In the South, cap rates rose by 41 basis points and reached a new high of 9.08 percent—slightly edging the previous high registered in the third quarter of 2009.

The cap rate data is based on the CBRE Valuation & Advisory Services (VAS) database. The data points are confirmed closed transactions, adjusted for assumed financing, and reflect overall market trends.

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	0.32	0.36	0.54	0.25	-0.07	-5.19
Money market, annual yield	0.71	0.73	1.18	0.71	-0.46	-3.07
Five-year CD, annual yield	2.36	2.38	2.71	2.36	-0.28	-2.68
30-year mortgage, fixed	4.63	4.62	5.51	4.51	-0.69	-1.65
15-year mortgage, fixed	4.11	4.11	4.96	4.09	-0.85	-1.80
Jumbo mortgages, $417,000-plus	5.57	5.55	6.52	5.55	-0.95	-1.75
Five-year adj mortgage (ARM)	3.78	3.75	4.82	3.75	-0.95	-2.44
New-car loan, 48-month	6.17	6.17	7.47	6.16	-1.14	-0.77
Home-equity loan, $30,000	5.08	5.08	5.83	5.08	-0.72	-2.22