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# COMMERCIAL REAL ESTATE MARKET UPDATES

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**Speculation Rising Over Impact of Expiring Capital Gains Tax Cuts on CRE Sales**
**最高的資本收益稅在明年會從目前的 15%（70 年來最低）回漲到 20%**
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*By Randyl Drummer (CoStar)*

The debate over tax cuts enacted in 2001 is expected to heat up when the U.S. Senate reconvenes in September after its summer recess. The maximum tax rate on capital gains and dividends will revert from the current 15%, a 70-year low, back to 20% on Jan. 1, 2011, and commercial real estate experts are beginning to speculate on the impact that reverting back to the higher rates will have on the still-fragile economic recovery.

The likelihood of higher marginal and capital gains and dividend taxes, along with the impacts of health-care reform, financial regulatory reform and proposed changes in the way investment and leasing income are accounted for, has been a major preoccupation of the real estate industry in 2010. As the stretch run for the mid-term election campaigns unfolds, however, with the national unemployment rate stalled at around 9.5%, many Republicans and U.S. businesses are wasting no time in calling on President Obama and the Democrat-controlled Congress to extend the capital gains tax cuts for all income brackets, including families earning at least $250,000 a year.

Marcus & Millichap recently posted a research note speculating on how CRE investors will react to the reversion of the capital gains tax rate to 2003 levels. Its conclusions: investment transaction volume could ramp up at the end of the year as long-term owners attempt to reap profits before taxes rise in gains from transfers of real property. Also, Marcus & Millichap believes the increase in capital gains taxes will spur interets in the long-dormant 1031 tax exchange market after years of inactivity, as investors seek shelter by indefinitely deferring capital gains and associated taxes through tax-deferred exchanges.

The research note authored by Marcus & Millichap Managing Director of Research Services Hessam Nadji observes that when the major tax code revision took effect in 1986 under President Reagan -- including a capital gains increase from 20% to 28% -- investors scrambled to liquidate, nearly doubling the total realized capital gains from the previous year.

"Despite the decline in investment values over the last two years, many investors will likely follow this liquidation strategy, locking in their profits rather than waiting for investments to appreciate sufficiently to offset the [capital gains] tax hike," Nadji said.

Tax cuts under the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 are scheduled to expire Dec. 31. Democrats are proposing extending the cuts only for households making less than $200,000 a year. Income earned in the current 10% tax bracket will be taxed at a rate of 15%, while the overall federal tax rate for the two highest earning brackets would rise from the current 33% and 35% to 36% and 39.6%.

Dividends will no longer have a special low rate but will be taxed at regular tax rates -- a maximum of 39.6% for the wealthiest Americans. All told, the expiration of all tax provisions will increase tax revenue -- and correspondingly, drain disposable personal income -- by about $300 billion, or 2.7%, in 2011, according to an analysis by the Congressional Budget Office (CBO).

Long-term capital gains taxes have averaged 26% over the last 50 years, hitting a high of 40% in 1976 during the Ford administration. In Nadji's view, the risk is high of future tax rate increases once the economy stabilizes.

Though investors often choose to hold their assets in the year following a tax rate hike, perceived risks may encourage them to continue selling assets in 2011.

While apartment owners will likely see notable recovery in occupancy and rents in over the next year, offsetting some of the capital gains increases, demand for retail and office space remains tepid, preventing owners of assets -- especially those outside major markets -- from regaining much control over rents and sale prices, Marcus & Millichap said.

"For investors holding these assets, future capital gains tax increases could overshadow appreciation substantially, extending the hold period to break even against current net profits for several years," Nadji said in the note. "Investors who purchased these assets more than six years ago likely have profits to protect and may consider liquidating late this year."

Accordingly, the ability to defer capital gains through 1031 tax exchanges will become even more attractive when capital gains taxes rise, Nadji and other analysts said. Since 2002, the year before the capital gains rate was reduced to a more-than 70-year low of 15%, the number of 1031 exchanges has fallen by nearly half, M&M said, citing data from the Treasury Department and Tax Foundation. With sellers discouraged from taking investment profits after capital gains taxes revert to 20%, the number of deals involving exchanges will rise substantially, Nadji said.

Massey Knakal Realty Services Chairman Robert Knakal told Fox Business late last month that in addition to the heightened number of distressed sellers in the current marketplace, recently, "we've seen a large increase in the number of discretionary sellers that are putting properties on the market, and the number one reason they're doing that is because they're afraid of the capital gains tax increases." In addition to the rise in the federal tax rate from 15% to 20%, investors are concerned that cash-strapped states and municipalities will also raise taxes to help balance their deficits, Knakal said.

While real estate economists queried by CoStar agree that tax increases are a front and center concern for investors, not everyone is convinced that the capital gain hike will cause a rush to sell assets over the next year -- or even whether the increase in capital gains will last for very long in the current economic climate before being cut again.

"This is a time when it is less painful to increase capital gains tax rates, since few owners have significant capital gains. Thus, I don't see a flurry of sales to beat the change," said Norm Miller, vice president of analytics for CoStar Group. "I expect that we will see more 1031 exchanges down the road, but not so much in the immediate future."

Richard Green, real estate economist and director of the USC Lusk Center for Real Estate, adds that although tax exchanges are dormant, "a return to 2000 tax law would almost certainly bring back the 1031 market."

Steve Cauley, director of research at the Ziman Center for Real Estate at the UCLA Anderson School of Management, said he'd be "very surprised" if there's a large bump in sales transaction, either now or next year, due to anticipation of the capital gains increase. Cauley pointed out that in 1986, property owners had already seen a large run up in values before the tax changes took effect and were ready to take profits. Plus, the prevailing view, or fear, at the time was that the tax code changes would be long term or even permanent, he said.

"It isn't clear to me that the capital gains portion of this tax increase is going to be long-lived this time around," Cauley said. Clearly, Congress won't abolish the tax increases for high-income people. But given the possible changes of the balance of power in Congress in November and the continuing soft economy, "it's hard to imagine we'll have a long-lived increase in capital gains taxes," he said.

"There's a clearer understanding now that long-term increases in capital gains taxes will retard economic growth. With real estate prices down so much, I would be really surprised to see a selloff, by the end of this year or next year, unless prices continue to decline and people try to get off the sinking ship."

For those investors who are selling now, some believe it may not turn out to be the best decision. "I think the sell-off will be much less pronounced han in 1986," Cauley said.

**Moodys/REAL Retail Index Takes a Dive in Second Quarter**
**(Indicating that retail property values are now at their lowest level since the fourth quarter of 2002)**
**Moodys/REAL Retail 指數在第二季度下滑（意味著購物商場價值跌至 2002 年第四季度以來最低）**

*By David Bodamer (Retail Magazine)*

The Moody/REAL National Quarterly Retail Index dove by more than 14 basis points in the second quarter indicating that retail property values are now at their lowest level since the fourth quarter of 2002.

The index, which stands at 118.58, experienced its second largest quarterly decline since reaching its peak during the third quarter of 2007. Only the first quarter of 2009—with a 22 basis point drop—showed a greater drop. The retail index overall is down 39.3 percent from its high point of 195.19.

Among property types, the drop in retail is worst of the four property types the Moodys/REAL indices track. Apartment prices are down 30.5 percent from their peak, office prices are down 30.8 percent and industrial prices are down 35.3 percent.

Retail is also the worst sector in the past 12 months. The national retail index is down 14.3 percent during that period compared with a 5.1 percent drop in the industrial index , a 4.7 percent decline in for office prices and a 2.5 percent increase in apartment values.

The picture is a bit different when looking at the top 10 MSAs. In those markets, the retail index actually rose 2.0 percent during the quarter, edging out the industrial and office and indices while trailing a 6.0 percent increase in the apartment index. That result followed a 19.3 percent decline in the first quarter. Prices in the top 10 MSAs peaked in the last quarter of 2007 and are currently down 35.5 percent.

By region, retail properties in the East have fared the best. The index there stands at 175.85 compared with 133.99 in the West and 126.92 in the South.

Overall, the Moody's/REAL All Property Type Aggregate Index showed a 4 percent drop in June as that index continues to bounce along a bottom. The index, which stands at 112.51, is still above the low point of 107.98 reached in October 2009. Since then it has risen in five months and declined in three. Since the market peak in October 2007, commercial real estate values measured by the index have deflated by 41.4 percent.

"We expect property prices to remain choppy for some time as commercial real estate markets and the broader economy continue their slow recovery from the recession," Moody's researchers wrote in their August report. "Sovereign debt problems, lingering unemployment in the United States, and heightened concern about a double dip recession and even deflation operate as a drag on investment activity, notwithstanding historically low interest rates."

On the positive side, transaction volume is increasing. According to the report, "The number of repeat sales transactions increased significantly in June. There were 153 transactions in June, up from 107 transactions in May. The total dollar volume also increased, to $2.1 billion, from $1.5 billion in the prior month. The increase in dollar volume in each of the past two months, taken together with this month's 43 percent increase in the number of repeat sale transactions, may be an early indication that buyers and sellers are starting to agree on market clearing prices."

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**Eight Takeaways on the Current State of Distress Opportunities**
**現今問題地產概況：大多數資產來自銀行或 CMBS 的問題貸款；大量資金使市場競爭激烈**

*By Mark Heschmeyer (CoStar)*

Since the start of 2009, buyers and sellers have transacted about $16.5 billion in distressed commercial real estate sales. Certainly more are expected to follow. Banks and CMBS special servicers are currently dealing with nearly $290 billion in distressed loans and properties.

CoStar Group recently analyzed the state of distressed real estate across the U.S., and presented its findings in a webinar on Wednesday in which it, discussing who is holding distressed real estate, how much presently exists by product type, what distressed deals have closed so far, and where the best opportunities are expected for buying distress in the near future.

Among the findings presented by Norm Miller, CoStar vice president of analytics; Jay Spivey, CoStar senior director of research and analytics; and Steve Miller, CoStar director of debt research and risk management, included eight key takeaways from that discussion.

Bank Distress: A Rolling Wave of Opportunities
As of the first quarter of this year, banks carried more than $150 billion in troubled commercial real estate-related assets on their books. Construction and land development loans accounted for about $80 billion of that. Loans on nonfarm, non-residential properties accounted for about $60 billion of bank distress and multifamily loans made up another $10 billion. The bulk of the distressed bank loans currently mature by the end of 2012, according to the Millers, (who are not related by the way.)

There is still no assurance over how much of those distressed loans will come to market, though. The trend among banks since the start of the Great Recession has been to extend the maturity date out on many of the loans, giving banks and borrowers the first opportunity to recognize a return.

However, that is not the situation for real estate classified as bank OREO (other real estate owned). The foreclosed CRE holdings of banks surpassed $41 billion at the end of the first quarter and, according to Norm Miller, which suggests that significant volumes of properties will be coming on the market soon.

Income-producing commercial real estate properties accounted for more than $25 billion of the banks' OREO amounts and construction and land development projects made up about $16 billion of the amount.

Special Servicers: An Increasing Flow of Deals
Distressed loans held in commercial mortgage-backed securities (CMBS) present another huge potential of opportunity. CMBS delinquency rates have been, by far, the worst among all lenders. Special servicers -- those firms hired by CMBS trustees to manage problem loans -- are currently dealing with about $135 billion to $140 billion in distressed loans, according to Steve Miller.

The amount of those loans coming to maturity will be spread out over the next seven to eight years, with the bulk of loan maturities peaking in 2017 -- 10 years after the peak in CMBS issuance.

Multifamily and office loans make up the two largest amounts of CMBS distress at about $35 billion each; retail totals about $30 billion; and hotels, $28 billion. Loans on industrial properties made up the smallest portion at just $5 billion.

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Heavy Competition for Distressed Assets

Of the amounts of distress held by banks and managed by special servicers, CoStar's Norm Miller estimates that there is near term potential deals on about half of that. At the same time, he said, there is about $200 billion of money chasing those deals, which has resulted in tremendous competition for high quality distressed assets that have been brought to market.

"With a few hedge funds in the hunt and much competition from opportunity funds for distressed assets, buyers must be strategic in getting on the inside with troubled borrowers, or approaching lenders who need to get delinquent loans off their books," Norm Miller said.

Increasing Investment Activity

Overall distress sales as percent of volume seem to be peaking as the total number of investment sales has begun to pick up, according to Norm Miller. Distressed sales seem to have topped out at about 22% to 23% of total volume. However, the number of distress sales has also been picking up, just not at the same pace as nondistressed sales. There were more than 2,300 distressed deals in the second quarter of this year, about 200 more than in each of the previous two quarters.

Distress Investors Favoring Large Multifamily Complexes

As of the first quarter of this year, distressed multifamily property sales accounted for about 28% of all apartment deals. On a dollar basis going back to the start of 2009, about $5 billion of distressed multifamily assets traded hands compared to $12.6 billion in nondistressed sales, according to CoStar's Jay Spivey, who broke down the distressed CRE numbers by property type. Spivey analyzed about 48,000 sales since the beginning of 2009 - about 10,000 of those deals qualified as distress sales.

Distress investors seem to be hunting for larger apartment complexes. The average number of units in the distress complexes that changed hands was 116 units. That compares to an average of 50 units in nondistress sales. The average price per unit for all distress deals was $54,565 compared to $91,985 for nondistressed units.

The most active distress investment markets were similar to those that experienced the most amount of single-family distress: the Southeast and West. In Atlanta and Jacksonville, FL, more than 70% of recorded multifamily deals were distress sales. In Orlando, Tampa/St. Petersburg and Las Vegas, more than 50% of all deals were distress sales.

Going forward, CoStar's Steve Miller analyzed where the best and worst opportunities were expected to be for distressed properties, based on expected average annual returns (AAR) from 2012-2014 and the relative estimate of future distress. For apartment properties, Minneapolis, Boston, Houston, and Northern and Central New Jersey were projected to have AARs of 16% or more and lower projections of future distress. The East Bay section of San Francisco was literally and figuratively on the other end of the country and spectrum, where returns were projected to be lower and distress higher.

Wide Differentials Seen in Office Deals

As of the first quarter of this year, distressed office property sales accounted for about 22% of all office deals. On a dollar basis going back to the start of 2009, about $2.5 billion of distressed office assets traded hands compared to $19.1 billion in nondistressed sales.

In a major difference with apartment investors, distress office investors seemed to be favoring smaller projects. The average size of distressed assets that changed hands was 43,917 square feet. That compares to an average of 51,623 square feet in nondistress sales. The average price per square foot for all distress deals was $97 compared to nearly twice as much for nondistressed office space.

The highest percentage of distressed office sales have been occurring in Detroit, Minneapolis, Atlanta and Memphis, where they accounted from 40% or more of all deals to nearly 80% (Detroit).

Going forward, Boston, Seattle, San Francisco, Houston, Minneapolis and Dallas were projected to have AARs of 16% or more and lower projections of future distress. Portland (OR), Sacramento, Atlanta and Miami were on the other end of spectrum, where returns were projected to be lower and distress higher.

California's Retail Markets: High Risks
As of the first quarter of this year, distressed retail property sales accounted for about 18% of all retail deals. On a dollar basis going back to the start of 2009, about $2.8 billion of distressed retail assets traded hands compared to $14.8 billion in nondistressed sales.

Distress retail investors seemed to be favoring the slightly larger properties. The average size of distressed assets that changed hands was 33,534 square feet. That compares to an average of 25,245 square feet in nondistress sales. The average price per square foot for all distress deals was $79 compared to $137 for nondistressed retail space.

The highest percentage of distressed retail sales have been occurring in Atlanta, Orlando and Colorado Springs, where they accounted from 30% to 45% (Atlanta) or more of all deals.

Going forward, Chicago, Houston and Long Island were projected to have AARs of 15% or more and lower projections of future distress. The other end of spectrum was littered with markets, including the entire California coast, Las Vegas, Phoenix, Denver, Detroit and Atlanta, where returns were projected to be lower and distress higher.

Narrow Differentials on Industrial Deals
As of the first quarter of this year, distressed industrial property sales accounted for about 17% of all industrial deals. On a dollar basis going back to the start of 2009, about $1.4 billion of distressed industrial assets traded hands compared to $11.9 billion in nondistressed sales.

The average size of distressed assets changing hands was pretty close in both categories. The average distressed property was 54,984 square feet compared to 56,754 in nondistress sales. The price differentials were also closer together. The average price per square foot for all distress deals was $36 compared to $58 for nondistressed industrial space.

The highest percentage of distressed industrial sales has been occurring in Honolulu where they accounted nearly 45% of all deals. Detroit came in at about 27%.

Going forward, many second tier markets were projected to have AARs of 15% or more and lower projections of future distress: St. Louis, Memphis, Portland (OR), Indianapolis and Houston, as well. The other end of spectrum included Denver, Atlanta, Las Vegas and Miami, where returns were projected to be lower and distress higher.

**Blockbuster Preparing to File Mid-September Bankruptcy; Reject ~500 Leases**
**Blockbuster 預備九月中宣佈破產；可能終止近 500 個租約**

*By: Ben Fritz (LATimes)*

After dominating the home video rental business for more than a decade and struggling to survive in recent years against upstarts Netflix and Redbox, Blockbuster Inc. is preparing to file for bankruptcy next month, according to people who have been briefed on the matter.

Executives from Blockbuster and its senior debt holders last week held meetings with the six major movie studios to discuss their intention to enter a “pre-planned” bankruptcy in mid-September, said several people familiar with the situation who requested anonymity due to the sensitivity of ongoing talks.

Blockbuster is hoping to use its time in Chapter 11 to restructure a crippling debt load of nearly $1 billion and escape leases on 500 or more of it 3,425 stores in the U.S. Maintaining the support of Hollywood's film studios during the process will be critical so that Blockbuster can continue to rely upon an uninterrupted supply of new DVDs.

Blockbuster has lost a total of $1.1 billion since the beginning of 2008 and has been severely hamstrung in efforts to grow its business due to interest payments on $920 million in debt. Earlier this month the company announced that most of its debt holders had agreed to a forbearance on interest payments until Sept. 30, during which time it would attempt a recapitalization.

Last week Dallas-based Blockbuster's chief executive, Jim Keyes, came to Los Angeles to hold individual meetings with executives at studios including 20th Century Fox, Paramount Pictures, Sony Pictures, Universal Pictures, Walt Disney Studios and Warner Bros. He was joined by a team of restructuring consultants hired to help turn around the struggling company, along with its senior debt holders who would likely end up owning a substantial portion of Blockbuster following bankruptcy.

Former Sony Pictures home entertainment president Ben Feingold, who is serving as an advisor to the debt holders, was present as well.

Though its plans are not yet set in stone, people knowledgeable about the discussions said the Blockbuster representatives presented a mid-September bankruptcy as the most likely scenario. It would enter what is known as a “pre-planned bankruptcy,” meaning most but not all creditors would be on board ahead of time, including senior debt holders and content suppliers.

One of the primary goals of the bankruptcy process, which the company said it hopes would last about five months, would be to escape costly leases for some of its worst-performing stores. Though Blockbuster hasn’t decided exactly how many locations it would seek to shutter as part of a bankruptcy, executives told the major studios it is looking at between 500 and 800.

Blockbuster closed nearly 1,000 stores in the last year alone, a reflection of consumers’ rapidly declining interest in renting DVDs from retail locations now that they can rent them from ubiquitous kiosks in grocery stores, in the mail, or via the Internet.

If it successfully exits bankruptcy, Blockbuster has told Hollywood studios, it hopes to grow through non-retail initiatives. Kiosk manufacturer NCR Corp., for instance, has already deployed about 6,000 Blockbuster-branded kiosks that, like Redbox, rent DVDs for $1 per night.

The company also hopes to expand its presence in the still nascent digital distribution space, through which a growing number of customers are downloading or streaming movies on computers, Internet-connected televisions, and mobile phones.

Most studios are believed to be supportive of Blockbuster's efforts, as they want to see it remain in business as a viable competitor to Netflix and Redbox, particularly since the formerly second-largest DVD rental store, Hollywood Video parent firm Movie Gallery Inc., went out of business in April.

But there are still some issues to be resolved, including the company's desire to continue offering movies from all the studios on the same day they go on sale. Fox, Universal and Warner have all instituted a 28-day window on rentals through Redbox and Netflix.

The studios would likely be protected from any significant losses on payments Blockbuster might owe them at the time it files for bankruptcy under the proposed plan. But they would lose revenue from any stores shut down.

The parties most impacted would be Blockbuster's junior debt holders and the landlords of leases that would be canceled under the proposed bankruptcy. It remains to be seen whether they would attempt to challenge a plan that left them with a fraction of what they are owed.

If the company does not enter bankruptcy, it would need to find a new investor or convince its debt owners to significantly reduce its interest payments for the foreseeable future.

A Blockbuster spokeswoman declined to comment on the studio meetings. In a statement, she said, "The extension of our forbearance agreement is a strong sign of support from our senior secured noteholders as we work toward putting in place a more appropriate capital structure to support Blockbuster's long-term growth. … Our discussions continue to be productive and we have every reason to believe we will come out of the recapitalization process financially stronger and more competitively positioned for the future."

Blockbuster stock, which last month was delisted by the New York Stock Exchange because of its ongoing low price and moved to the over-the-counter market, closed Thursday at 11 cents. The company's total market value is $24 million.

In 1994 it was acquired by former owner Viacom Inc. for $8.4 billion.

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**Abercrombie & Fitch Shuttering 110 Stores; GM Shrinks Real Estate Holdings; More Retailer Right-Sizings**
**Abercrombie & Fitch 關閉 11 家店；GM 繼續減少所有地產**

*By Andrew Deichler (CoStar)*

Abercrombie & Fitch intends to close 110 of its domestic stores by 2012.

The Ohio-based apparel retailer said in an SEC filing last week that its would be shuttering 60 locations by the end of the year, with the remaining 50 stores closing in 2011. The majority of these stores will be closed following natural lease expirations, Abercrombie said. However, buyouts and other closures prior to lease expirations are also expected.

The company has incurred a $2.2 million non-cash, pre-tax asset impairment charge associated with the closures.

Despite an overall increase in sales in the second quarter, Abercrombie's gross profit rate was lower than the previous year. This was due to a 15% drop in prices, the company said.

Abercrombie has yet to reveal which stores will be affected. The company currently operates 1,098 locations in the United States: 339 Abercrombie & Fitch stores, 202 abercrombie kids stores, 509 Hollister stores and 17 Gilly Hicks stores.

This is the second major string of closures for Abercrombie in a little over a year's time. Last July, the retailer announced it was discontinuing its Ruehl line and closed all 29 stores.

Abercrombie is also narrowing some its expansion plans for Fiscal 2010. The company had been initially planning to open about 25 international mall-based Hollister stores, but has since amended that number to 20.

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**The Incredible Shrinking GM: $12 Bil. in Lost Real Estate**

*By Mark Heschmeyer*

General Motors Co. may have filed a registration statement to raise $6 billion to $8 billion in a new proposed initial public offering but don't expect the automaker to begin expanding its real estate footprint any time soon. In fact, it could continue shrinking but, nonetheless, the filing could be good news for Detroit.

In its IPO filing, the company said it would continue to consolidate its U.S. manufacturing operations while maintaining the flexibility to meet increasing 2010 production levels.

The new GM combined with Old GM that filed for bankruptcy protection in the summer of last year, produced 1.9 million vehicles last year. That represents a decrease of 44.5% compared to 3.4 million vehicles in 2008.

However, in the six months ended June 30, 2010, the company had already produced 1.4 million vehicles. Yet even though auto sales have picked up this year, GM has met the increased demand by temporarily shifting production from North American plants to other countries and said it will continue to do so.

As of June 30, GM had 117 locations in 93 cities or towns in the United States. Of these locations, 40 are manufacturing facilities. Of the remaining locations, 26 are service parts operations primarily responsible for distribution and warehouse functions, and the remainder are offices or facilities primarily involved in engineering and testing vehicles. The total book value of its real estate not counting manufacturing equipment was $8.1 billion.

That is about a 60% drop in value from the old GM's peak in 2003 and 2004 when it had 370 locations in 220 cities valued at $20.41 billion.

GM has also been cutting its network of independent retail dealers. As of June 30, there were approximately 5,200 vehicle dealers in the U.S. compared to approximately 5,600 as Dec. 31, 2009. GM said it intends to reduce the total number of its U.S. dealers to approximately 4,500 by the end of this year.

The trimming aside, though, Detroit's real estate community is viewing the offering and increasing car productions as good things.

"The slaughter is over," said Andrew E. Hayman, managing partner of The Hayman Co. in Troy, MI. "The offering can only be a good thing. The slate has been wiped clean and they can operate under a new healthy GM."

Not that new leases will be signed anytime soon, Hayman said, but the market is beginning to see a pick up in supplier contracts being signed, which could mean good things in 2011 for the automotive industry and GM too.

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**Frederick's of Hollywood Outsources, Consolidates**

Last week, Frederick's of Hollywood unveiled its new plan to achieve $2 million in annual savings by outsourcing the last of its manufacturing processes and consolidating its distribution operations.

Production at the intimate apparel company's last production plant, located in the Philippines, has now ceased. The closure is expected to save the Frederick's $1.5 million annually.

Additionally, the company is moving all of its retail and wholesale distribution operations to its 168,000-square-foot facility in Phoenix, AZ. As a result, its distribution center in Poplarville, MS, is set to close by the end of November. Frederick's estimates that the consolidation will save about $500,000 in operating costs per year.

"The latest changes to our manufacturing and distribution capabilities are in line with the strategy we have implemented over the past 18 months, which is aimed at streamlining our operations and reducing costs," said Thomas Lynch, chairman and CEO. "Consolidating the distribution of our products to the Phoenix facility and fully outsourcing our manufacturing will allow us to dedicate more resources to the marketing and design of our products in order to strengthen our brand."

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**Saks Pares Stores By Five**

*By Mark Heschmeyer*

Saks Inc. closed its Saks Fifth Avenue store in The Shops at Willow Bend in Plano, TX, this past week and plans to close its Saks Fifth Avenue store in the Mission Viejo Mall in Mission Viejo, CA, in late October. The company closed its Saks Fifth Avenue stores in Portland, OR; San Diego; and Charleston, SC, last month.

"In the ordinary course of business, we assess the productivity, profitability, and potential for each of our stores and may determine it is appropriate to close a store from time to time," said Sadove, chairman and CEO of Saks.

Approximately 65 associates are employed in the Plano store, and approximately 60 associates are employed in the Mission Viejo store. All affected associates either will be offered transfer opportunities or will receive appropriate severance packages.

The Plano store is approximately 121,000 square feet, and the Mission Viejo store is approximately 98,000 square feet.

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**Read *Lease Down* First**

| Company | Address | Closure or Layoff | # Affected | Impact Date |
|---|---|---|---|---|
| **Abercrombie & Fitch** | Nationwide | multiple closures | unknown | 2010, 2011 |
| **Frederick's of Hollywood** | 100 Highway 11 N, Poplarville, MS | closure | unknown | 11/31/2010 |
| **Saks** | 2401 Dallas Pky, Plano, TX | closure | 64 | 09/18/2010 |
| **Saks** | 27000 Crown Valley Pky, Mission Viejo, CA | closure | 60 | 09/18/2010 |
| **Pfizer** | 401 N Middletown Rd, Pearl River, NY | layoff | 115 | 12/17/2010 |
| **Pyrotek** | 30 Madison Blvd, Canastota, NY | closure | 34 | 11/18/2010 |
| **Delaware North Cos. Travel Hospitality Services** | 1000 Colonel Eileen Collins Blvd, North Syracuse, NY | potential closure | 69 | 12/31/2010 |
| **New Process Gear** | 6600 New Venture Gear Dr, East Syracuse, NY | closure | 107 | 11/15/2010 |
| **RJ American Inc.** | 3611 14th Ave, Brooklyn, NY | layoff | 157 | 8/13/2010 |
| **Wells Fargo** | 600 Penn St, Reading, PA | closure | 93 | 10/15/2010 |

| BAE Systems | 2198 University Dr, Lemont Furnace, PA | layoff | 124 | 10/14/2010 |
|---|---|---|---|---|
| Pathmark | 2671 Durham Rd, Bristol, PA | closure | 109 | 10/13/2010 |
| Pathmark | 30 Lawrence Rd, Broomall, PA | closure | 108 | 10/13/2010 |
| Citigroup | 14415 S 50th St, Phoenix, AZ | layoff | 272 | 8/30/2010 |
| Coach - Net Services Group | 900 N Lake Havasu Ave, Lake Havasu City, AZ | layoff | 160 | 10/2010-3/2011 |
| Sperry & Rice Manufacturing | 1088 N Main St, Killbuck, OH | layoff | 67 | 10/23/2010 |
| Northrop Grumman Technical Services | 34200 Fulton St, Wallops Island, VA | layoff | 169 | 10/15/2010 |
| Western Refining Yorktown | 2201 Goodwin Neck Rd, Yorktown, PA | layoff | 225 | 8/5/2010 |

**Lease Cancellations**

**Fuddruckers Cancels Six More Leases**

Fuddruckers is rejecting six more retail leases in connection with its April 21 bankruptcy filing.

The restaurant chain has occupied most of these locations for a lengthy period of time; some go as far back as the 1980s and 1990s. Fuddruckers is selling off its assets at each location (tables, chairs, kitchen equipment, etc.), which it estimates will generate a total of approximately $300,000, or $50,000 per restaurant.

All six leases were terminated as of July 30.

Luby's Inc. recently acquired Fuddruckers' remaining assets for $63.45 million. The restaurant owner beat out a $40 million bid by Tavistock, announced back in April.

| Company | Address | Affected Parties | Comment |
|---|---|---|---|
| Fuddruckers | 1587 Spring Hill Rd, Vienna, VA | Sunburst Hospital Corp. | Store # 225, 5,621 SF, lease dated 12/21/1993 |
| Fuddruckers | 3149 Silverlake Village Dr, Pearland, TX | Fidelis Realty Partners | Store # 432, 4,400 SF, lease dated 5/18/2005 |

| | | | |
|---|---|---|---|
| **Fuddruckers** | 7145 E Indian School Rd, Scottsdale, AZ | PCL LLC | Store # 98, 5,125 SF, lease dated 11/5/1985 |
| **Fuddruckers** | 2320 S El Camino Real, Oceanside, CA | Irwin Belcher | Store # 434, 4,500 SF, lease dated 6/1/2004 |
| **Fuddruckers** | 1510 8th Street Dr SE, Hickory, NC | MSA Investments LLC | Store # 306, 5,966 SF, lease dated 8/1/1996 |
| **Fuddruckers** | 2180 Merchants Way, Duluth, GA | Arch Properties Group LLC | Store # 220, 5,902 SF, lease dated 12/30/1993 |

## Regulators Close Seven Banks with $4.4 Bil. in Assets
## 上周政府關閉七家銀行；總資產約四十多億美金

*By Mark Heschmeyer (CoStar)*

The Federal Deposit Insurance Corp. (FDIC) lined up five buyers for seven newly closed banks this past week. Together the seven failed banks reported distressed commercial real estates of nearly $548 million combined.

Summary of the seven banks deals are as follows.

**Shore Bank**
In the largest deal, the Illinois Department of Financial and Professional Regulation closed ShoreBank Corp.'s Midwest area bank in Chicago and appointed the FDIC as receiver, which sold the core deposits and most of the assets to Urban Partnership Bank.

The bank called Shore Bank operated 15 branches in Chicago, Detroit and Cleveland.

As of June 30, 2010, Shore Bank had approximately $2.16 billion in total assets and $1.54 billion in total deposits.

As of March 31, 2010, Shore Bank reported $245.1 million in distressed commercial real estate assets (10.8% of total assets), the largest amount of which was $108 million in multifamily loans in nonaccrual status.

Urban Partnership Bank agreed to purchase essentially all of the bank's assets except for the marketable securities and fixed assets. The FDIC and Urban Partnership Bank entered into a loss-share transaction on $1.41 billion of Shore Bank's assets.

The FDIC estimates the cost to its Deposit Insurance Fund (DIF) would be $367.7 million.

Separately, Shore Bank Corp. agreed to sell its Pacific Northwest subsidiary, Shore Bank Pacific, to OneCalifornia Bank. Terms of that transaction were not disclosed. Shore Bank Pacific reported $218.2 million in assets of March 31. The purchase, which is subject to regulatory and other approvals, will result in OneCalifornia Bank having combined assets of approximately $300 million.

**Los Padres Bank**
The Office of Thrift Supervision (OTS) closed Los Padres Bank of Solvang, CA, and appointed the FDIC as receiver, which sold its deposits and most of its assets to Pacific Western Bank in San Diego.

Los Padres Bank was in an unsafe and unsound condition to transact business and was undercapitalized with no reasonable prospect of becoming adequately capitalized, according to the OTS.

"The addition of the Los Padres offices extends our franchise up into the Central Coast of California allowing for further market expansion," said Matt Wagner, CEO of PacWest Bancorp, parent company of Pacific Western Bank. "The Arizona offices, which represent a new market for us, are valued additions and we are committed to providing our high quality banking services in all the locations we acquired."

Los Padres Bank, which began operations in 1983 as a state-chartered institution called Santa Ynez Valley Savings and Loan Association, had 156 employees, assets of $870.4 million, retail deposits of $770.7 million, 11 branches in California and three branches in Arizona.

As of March 31, Los Padres Bank reported $85.3 million in distressed commercial real estate assets (9.5% of total assets), the largest amount of which was $13.3 million in foreclosed commercial real estate properties.

The FDIC and Pacific Western Bank entered into a loss-share transaction on $579.8 million of Los Padres Bank's assets.

The FDIC estimated that the cost to its DIF would be $8.7 million.

**Butte Community Bank; Pacific State Bank**
Butte Community Bank in Chico, CA, and Pacific State Bank in Stockton, CA, were closed by the California Department of Financial Institutions, which appointed the FDIC as receiver. Rabobank in El Centro, CA, assumed all the deposits and essentially all the assets of the two failed banks, which were not affiliated with one another.

Butte Community Bank had 14 branches, and Pacific State Bank had nine branches.

As of June 30, Butte Community Bank had total assets of $498.8 million and total deposits of $471.3 million; and Pacific State Bank had total assets of $312.1 million and total deposits of $278.8 million.

As of March 31, Butte Community Bank reported $89.8 million in distressed commercial real estate assets (17.2% of total assets), the largest amounts of which were $32.3 million in construction and land development loans in nonaccrual status and $27.9 million in multifamily loans in nonaccrual status.

As of March 31, Pacific State Bank reported $55.1 million in distressed commercial real estate assets (17.1% of total assets), the largest amounts of which were $13.1 million in multifamily loans in nonaccrual status and $12.3 million in foreclosed construction and land development projects.

The FDIC and Rabobank entered into loss-share transactions on $425.4 million of Butte Community Bank's assets; and $249.7 million of Pacific State Bank's assets.

The FDIC estimated that the cost to its DIF for Butte Community Bank would be $17.4 million; and for Pacific State Bank, $32.6 million.

"The transaction has tremendous strategic value," said Ronald Blok, CEO of Rabobank "in that it gives Rabobank an immediate and broad presence in communities where we have planned to grow and where we can increase our service to local businesses, farmers, and individuals. In addition, these banks are a highly complementary geographic fit. This is a great opportunity for us to deepen our existing customer and community relationships and to build new ones through continued investments that enhance our customers' experience."

**Sonoma Valley Bank**
Westamerica Bank in San Rafael, CA, acquired all the assets and assumed substantially all the liabilities of Sonoma Valley Bank in Sonoma, CA. The California Department of Financial Institutions closed Sonoma Valley Bank closed and appointed the FDIC as receiver.

As of June 30, Sonoma Valley Bank reported $337.1 million in total assets and deposits totaling $256 million and loans totaling $241 million. It operated three branches.

As of March 31, Sonoma Valley Bank reported $53.9 million in distressed commercial real estate assets (14.8% of total assets), the largest amount of which was $12.5 million in construction and land development loans in nonaccrual status.

As of June 30, Westamerica Bank operated over 90 branches throughout Northern and Central California with deposits totaling $3.9 billion and loans totaling $2.8 billion.

The FDIC estimated that the cost to its DIF would be $10.1 million.

**Independent National Bank; Community National Bank At Bartow**
CenterState Bank of Florida in Winter Haven, FL, assumed all the deposits and essentially all the assets of the two failed Florida banks, which were not affiliated with one another: Independent National Bank with four branches, and Community National Bank At Bartow with one branch in Bartow.

The Office of the Comptroller of the Currency appointed the FDIC as receiver for both banks after finding that they had experienced substantial dissipation of assets and earnings due to unsafe and unsound practices. The OCC also found that the banks incurred losses that depleted their capital and that there were no reasonable prospects that the banks would become adequately capitalized without federal assistance.

As of June 30, 2010, Independent National Bank in Ocala had approximately $156.2 million of total assets.

As of March 31, Independent National Bank reported $16.5 million in distressed commercial real estate assets (10.1% of total assets), the largest amount of which was $10.5 million in loans secured by nonfarm nonresidential properties in nonaccrual status.

As of June 30, Community National Bank At Bartow had total assets of $67.9 million and total deposits of $63.7 million.

As of March 31, Community National Bank At Bartow reported just $2.1 million in distressed commercial real estate assets (2.7% of total assets).

The FDIC and CenterState Bank entered into loss-share transactions on $51.9 million of Community National Bank At Bartow's assets; and $119.7 million of Independent National Bank's assets.

The FDIC estimated that the cost to its DIF for Community National Bank At Bartow would be $10.3 million; and for Independent National Bank, $23.2 million.

**Imperial Savings and Loan Association**
The OTS closed Imperial Savings and Loan Association in Martinsville, VA, and appointed the FDIC as receiver, which sold the deposits and assets to River Community Bank also in Martinsville.

Imperial, a minority-owned, mutual thrift institution, was critically undercapitalized, according to the OTS. The institution, which began operations in 1929, had six employees, assets of $9.4 million, one office and no branches. Imperial reported just $198,000 in distressed commercial real estate assets of March 31.

The FDIC estimated that the cost to its DIF would be $3.5 million.

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**PAB Bankshares Withdraws Needed Stock Sale**

Due to changing market conditions, PAB Bankshares Inc., the parent company for The Park Avenue Bank in Valdosta, GA, withdrew its registration statement to sell approximately $80 million of its common stock.

The company and the bank are currently operating under heightened regulatory scrutiny and agreed with the Federal Reserve Bank of Atlanta and the Georgia Department of Banking and Finance last summer to strengthen the bank's credit risk management practices, improve loan underwriting, asset quality, liquidity and the bank's position on problem loans.

The bank operates 13 branches in seven counties in Georgia and Florida. As of March 31, 2010, it reported $1.25 billion in assets of which 17.1% ($213.1 million) were considered distressed commercial real estate-related assets. Its largest categories of distress were $74 million in foreclosed construction and land development properties and another $73 million of construction and land development loans in nonaccrual status.

The company said it is aggressively analyzing all other capital-raising alternatives and nonperforming asset liquidation plans.

"We remain focused on strengthening the company, and we must remain flexible and responsive to market conditions in order to find the appropriate solutions to our capital needs and asset quality issues," said Jay Torbert, president and CEO of PAB.

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**Nara Bank CRE Loan Sale Brings in Higher-Than-Expected Price**

Nara Bank sold a $61.1 million bulk of problem loans that for $38.8 million, a better-than-expected result.

The loan sale consisted of commercial real estate loans secured by hospitality (44.6%), retail (21.8%), gas station/car wash (17.9%), and mixed-use (15.7%) properties. Approximately 43% of the loans sold were related to properties in California, primarily in markets outside of the major metropolitan areas. The remainder of the loans are related to properties outside of California.

During the second quarter of 2010, the company recorded a $26.3 million provision for loan losses related to the loans included in the bulk sale.

As of June 30, 2010, the company had transferred the portfolio to held-for-sale at its best estimate of the fair value based on the market conditions and performance of the portfolio at that time. With the sale, though, the company will record a pre-tax gain of $3.7 million on the sale of these loans in the third quarter of 2010.

Approximately $2.2 million of the $63.3 million of loans transferred to held-for-sale at June 30, 2010 were not sold through the bulk sale process, as the bank has decided to pursue alternative courses of resolution. No material additional losses are expected to be incurred on these loans.

"The bulk sale was an efficient mechanism for disposing of problem assets outside of our primary markets and improving our credit quality in the process," said Alvin Kang, president and CEO of Nara Bancorp Inc., the bank's parent company. "Following this sale, we have significantly reduced our exposure to areas that have experienced the most economic weakness and have had the most significant declines in collateral valuations. We will continue to be aggressive in further reducing our level of problem assets, which could include additional loan sales. However, it is more likely that future dispositions would be through individual sales to relationships within our primary markets, which would be at smaller discounts than a bulk sale."

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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**

| | 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 | 0.30 | 0.32 | 0.54 | 0.25 | -0.05 | -5.28 |
| Money market, annual yield | 0.73 | 0.71 | 1.18 | 0.71 | -0.44 | -3.04 |
| Five-year CD, annual yield | 2.35 | 2.36 | 2.71 | 2.35 | -0.30 | -2.66 |
| 30-year mortgage, fixed | 4.51 | 4.63 | 5.51 | 4.51 | -0.97 | -1.67 |
| 15-year mortgage, fixed | 3.96 | 4.11 | 4.91 | 3.96 | -0.84 | -1.89 |
| Jumbo mortgages, $417,000-plus | 5.69 | 5.57 | 6.52 | 5.55 | -0.75 | -1.54 |
| Five-year adj mortgage (ARM) | 3.59 | 3.78 | 4.82 | 3.53 | -1.23 | -2.67 |
| New-car loan, 48-month | 6.16 | 6.17 | 7.47 | 6.16 | -1.27 | -0.78 |
| Home-equity loan, $30,000 | 5.11 | 5.08 | 5.83 | 5.08 | -0.72 | -2.56 |