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COMMERCIAL REAL ESTATE MARKET UPDATES

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Real Estate Premium Near Record to U.S. Bonds Signals Time to Buy Property
商業地產的投資回報率比十年的政府債券高 4.29%, 不少投資者認為現在是投資的好時機

By: Hui-yong Yu (Bloomberg)

U.S. commercial real estate yields are near the highest level relative to Treasury bonds on record, a signal to some investors it's time to buy property.

Capitalization rates, a measure of real estate yields, averaged 7.22 percent in the second quarter, based on an index calculated by the National Council of Real Estate Investment Fiduciaries. That was 429 basis points, or 4.29 percentage points, higher than the yield on 10-year government bonds as of June 30, according to data compiled by Bloomberg. It's about 475 basis points higher than Treasury yields as of yesterday.

That spread is near the record 539 basis points in the first quarter of 2009, when the U.S. was mired in the worst of the financial crisis and property prices sank. Risk-averse investors are seeking the highest-quality office towers, hotels and apartments as the gap widens, according to Nori Gerardo Lietz, partner and chief strategist for private real estate at Partners Group AG in San Francisco.

"The data indicate that real estate is poised for a rebound," said Gerardo Lietz, who advises pension funds on property investments.

Some buyers already are acquiring buildings at lower cap rates, which move inversely to price. In June, a group of South Korean pension fund investors bought the 33-story Wells Fargo Building in San Francisco for $333 million from Principal Financial Group Inc. in one of the largest transactions in the second quarter, according to Real Capital Analytics Inc., a property research firm. The office tower sold at a cap rate of about 7 percent, said Goodwin Gaw, the developer who helped broker on the deal.

New York Rates

In Manhattan, RXR Realty LLC bought a stake in 340 Madison Ave., a 22-story office building, at a cap rate of 6 percent, according to New York-based Real Capital. Cap rates are calculated by dividing net operating income by purchase price, so the lower the rate, the higher the value of the property, and vice versa.

The NCREIF index measures 6,066 U.S. properties with a market value of $234.5 billion. The spread over Treasury yields was calculated using transaction cap rates, which are based on actual sales -- 48 in the second quarter -- and are usually more reliable than appraised values, according to Chicago-based NCREIF. The organization's measure, which it began publishing in 1982, represents current yield before any price appreciation.

Comparing Yields

Investors compare property yields with Treasuries to determine how much potential profit real estate offers relative to an investment that's considered low-risk. The spread shrank to less than 80 basis points, the narrowest in 16 years, when commercial real estate prices peaked in 2007. Property values have dropped more than 40 percent since the October 2007 top of the market, according to Moody's Investors Service.

The gap's widening follows a plunge in bond yields after the global financial crisis spurred a flight to safety and the Federal Reserve slashed interest rates to a record low. Treasury bonds yesterday completed the biggest monthly rally since the end of 2008 amid signs economic growth is faltering, with the benchmark 10-year note yielding 2.47 percent.

“Property is attractively priced versus the fixed-income market,” said Ritson Ferguson, chief investment officer of ING Clarion Real Estate Securities in Radnor, Pennsylvania, which manages about $12 billion.

The wide spread carries a warning signal to some investors because the economy remains weak, hurting commercial rents and occupancy.

Being ‘Picky’

“It’s questionable how much growth you’re going to get,” said James S. Corl, managing director for distressed real estate investments at Siguler Guff & Co., a New York-based private- equity firm. “Yes, there is value in real estate but you’ve got to be very picky. If you pay up for existing leases, it’s very hard to manage your way out of that situation.”

For much of the past two decades, institutional real estate was valued at about a 9 percent cap rate, according to Jeffrey D. Fisher, a consultant to NCREIF and a real estate professor at Indiana University in Bloomington, Indiana. Cap rates on some commercial deals fell to less than 4 percent during the peak.

The rate declined in the second quarter as transactions began to increase, he said.

“What I’m seeing is a two-tiered market right now,” Fisher said. “For properties that have high occupancy, that’s where you really have seen the price appreciation and cap rates falling.” For buildings with low occupancy rates, “there is very little interest,” he said.

Sales Rebound

U.S. sales of office, retail, industrial, apartment and hotel properties totaled $20.7 billion in the second quarter, according to Real Capital. That was up 86 percent from $11.1 billion a year earlier.

The deals were still 85 percent below the peak of $135.7 billion in the second quarter of 2007, Real Capital data show.

Corporate bond yields are a better comparison than Treasuries and also indicate that properties are undervalued, said Michael Knott, managing director at Green Street Advisors Inc., a Newport Beach, California-based company that specializes in analyzing real estate investment trusts. Bonds rated Baa by Moody’s are perceived as investments with moderate risk, similar to commercial real estate, said Knott.

The spread between NCREIF real estate cap rates and Baa- rated corporate bonds is more than 200 basis points, Knott said. The average during the past 25 years is about 140 basis points.

“Underlying real estate looks cheap to us relative to where moderate-risk corporate bond yields are priced,” Knott said in a telephone interview. The exception is publicly traded REITs, which trade at a premium to asset values, he said.

“Smart managers today are being very selective because they realize a lot more property has to clear the market,” said Corl of Siguler Guff. “The volume of deals is definitely going to go up.”

Distress Contributing to a 'Shaky Bottom' for CRE Sales, Pricing: CoStar Index Finds July Decline in Value Among Institutional-Grade Properties, While General CRE Market Shows Improvement

商業地產的復蘇不會是 V 字形；雖然某些跡象顯示市場已達谷底，但此谷底搖搖欲墜

By: Randyl Drummer (CoStar)

The CoStar Commercial Repeat-Sale Indices (CCRSI), produced by CoStar Group, found that investment-grade property continued to decline in value for the second straight month in July.

Properties of sufficient quality and size for inclusion in large institutional portfolios saw their value decline by 5.05% during the month following a similar dip in June. The cumulative drop of nearly 10% over the two-month period nearly offsets the strong 11.78% increase in May that gave analysts hope that the recovery might be accelerating. As a result, the three-month change in the investment grade index ending July 31 posted a slight 1% increase. The CCRSI August report is based on data through the end of July.

The investment grade index fell 14.34% over the last 12 months -- seemingly a large decline, but a major improvement over the 20% to 33% annual drops observed from April 2009 through April 2010.

However, while institutional real estate is softening, general commercial real estate continued to show improvement. The CoStar composite index for all commercial real estate rose 6.41% for general commercial property and 5.67% for the composite in July, suggesting that with investors finally able to source financing, interest is picking up in second-tier and tertiary markets and smaller properties. The general composite index remains down by nearly 6% from a year ago, but far better than numbers observed during the previous 12 months. Still, given the weakness in the important institutional-grade market segment, "It's a shaky bottom" for commercial real estate, said Norm Miller, vice president of analytics for CoStar Group, Inc., commenting on the July indices.

"This recovery is not going to be V-shaped where we hit bottom and bounce right up," Miller said. "We're actually seeing investment-grade and general real estate go two different directions, which is pretty interesting."

"It appears transaction volume is picking up slightly in general real estate and [investors] are finally able to close some of those deals. I wouldn't say underwriting standards have loosened, but it's increasingly possible to get financing for investors with enough equity to put down."

Miller said the market will continue to be tainted for a while yet by distress due to the uneven national economic recovery. "A fair amount of distressed sales is mixing into our numbers, so we're seeing more distress for investment grade than for general real estate. By average transaction size, the distress sales are much bigger than general sales, and that means there's more distress mixed in with that larger investment-grade market."

Sales transaction dollar volume picked up for all property types during the second quarter of 2010, with significant increases in the office and multifamily sectors. Industrial and retail volumes remain low but also showed some increase in activity.Overall investment activity appears to be trending slightly higher so far in the third quarter over the second quarter, Miller said.

While transaction volume increases generally point to positive movement in pricing, the level of distressed sales is adding volatility and noise to the indices, "and all we can say now is we're observing a shaky bottom," Miller said.

CoStar launched the CCRSI last month in response to the void within the $11 trillion U.S. commercial real estate industry for an effective, non-biased indices to measure commercial real estate price movement by property type and geography. The index fills a gap for consistent and timely information on fundamental economic issues facing the CRE industry, including the important question of whether prices and values are climbing or falling on a month-to-month basis.

CoStar has identified more than 85,000 repeat sale pairs in its U.S. database, which it believes is the largest and most comprehensive comparable sales database in the U.S. commercial real estate industry.

Pair volume has been trending upward since 2009, with February 2009 appearing to have been the low point in the downturn, when just 374 sale pair transactions were recorded. Since then, pair volume has increased overall and beginning in November 2009, year-over-year changes in pair volume have been positive every month.

Other significant observations of the latest indices include the following:

- Public and private real estate investment trusts (REITs) have been the most active buyers, followed by developer-owners and individuals and investment managers, including hedge funds.
- Distress is a factor in the mix of properties being traded. Since 2007, the ratio of distressed sales to overall sales has gone from around 1% to above 23% currently. While overall distressed sales are still increasing, they appear to be peaking as a percentage of sales, although overall volumes are also picking up, according to the CoStar National Composite Monthly Indices.
- Hospitality, at 35%, showed the highest level of distressed sales as a percentage of transactions in the second quarter, followed by multifamily at 28%, office, 21%; retail, 18% and industrial, about 17%.

CoStar saw an increase in the proportion of repeat investment-grade properties trading hands in June. Investment-grade sales amounted to 31% of the total number of sales in June, the highest level it has been going back to January 2008.

That indicates an increase in larger properties changing hands, which had been at low ebb since the beginning of the recession. Prior to June, 24% of sales pairs in 2010 were considered investment grade. This compares to an average of 33% of sales pairs being investment grade in 2006 and 2007, before the start of the downturn.

Pending Home Sales Surprise with Uptick
七月的待售住宅房屋銷售指數上揚 5%，不過住宅與商業地產一樣不會很快復蘇

By: Dees Stribling (Commercial Property Executive)

The National Association of Realtors said on Thursday that its pending home sales index increased in July to 79.4, a rise of 5.2 percent. Pending home sales aren't actual, close-the-deal home sales, but they are a bellwether for sales in about two months, and as such the upward movement surprised economists.

Not that it's a terrific number by itself. On this particular index, anything over 100 indicates pending sales activity higher than in 2001, which was the case through all of the mid-2000s, but not since 2007. June 2010's reading of 75.5, in the immediate wake of the expiration of the federal homebuyer tax credit, was the rock-bottom lowest the index has ever been, meaning July's number is a little better than the pits.

Even the professionally optimistic Lawrence Yun, chief economist of NAR, could only offer so much comfort in the face of this kind of market. "Recovery looks to be a long process," he said in a statement on Thursday. "Home buyers over the past year got a great deal, and buyers for the balance of this year have an edge over sellers. For those who bought at or near the peak several years ago, particularly in markets experiencing big bubbles, it may take over a decade to fully recover lost equity."

Employment Treads Water

New claims for unemployment fell during the week ended August 28 by 6,000, to a seasonally adjusted 472,000, according to the U.S. Department of Labor. The four-week moving average of claims, which is less volatile, was also down by 2,500 to 485,000. That average had been creeping up during much of the summer.

Both are small fluctuations in the labor market, but at least positive ones. Moreover, they might mean that while the economy had a bad summer, at least a lot of employers aren't in a panic to fire everyone in sight, as they famously were during the fall of 2008 and into 2009.

Earlier in the week, the latest report from Chicago-based Challenger, Gray & Christmas Inc. noted that planned firings in August 2010 were down 55 percent from the same month a year earlier. So it seems that employment is running in place–no way to grow out of a recession, but not necessarily a recipe for another helping of abject, 2008-style recession.

Shoppers Do a Little More Shopping

In August retailers have traditionally use back-to-school to move the merch, and U.S. consumers went for it a little more than expected this year, according to the International Council of Shopping Centers index of 31 major retailers, which was up 3.2 percent during the month compared with July. The sales are measured in stores that have been open for at least a year.

Naturally, there were some winners and some losers among the 31 retailers. The likes of Costco Wholesale Corp. (sales up 7 percent for the month), Limited Brands Inc. (Victoria's Secret et al., up 10 percent) and Macy's (up 4.3 percent) did well. Some teen retailers–always tough territory, considering the fickleness of the customer base–didn't do that well, such as Aeropostale Inc., which saw a 1 percent decline in sales during the month.

Wall Street had another up day on Thursday, perhaps buoyed by the modest economic improvements detailed above. In any case, the Dow Jones Industrial Average gained 50.63 points, or 0.49 percent, while the S&P 500 and the Nasdaq were up 0.91 percent and 1.06 percent, respectively.

Apartment and Office Sectors Spark Investor Demand
投資者對公寓和辦公樓的需求量增加

By: RERC

RERC's investment conditions ratings for the institutional apartment and CBD office sectors jumped a full point during second quarter 2010, making them the two highest-rated property types that RERC surveys. The investment conditions rating for the apartment sector increased to 7.1 during second quarter 2010 from 6.1 during first quarter. (Investment conditions are based on a scale of 1 to 10, with 10 being high.) The investment conditions rating for the CBD office sector increased to 6.0 during second quarter from 5.0 during first quarter, as reported in the newly-released summer 2010 issue of the RERC Real Estate Report, Riding the Edge of Success.

“These high ratings reflect the increased investment prospects we are seeing for commercial real estate in general,” stated Ken Riggs, RERC president and CEO. “Institutional investors skittish about the slowing economy and the volatility and risk exhibited in the stock market are finding the diversification, stability, and higher absolute returns of the commercial real estate asset class increasingly attractive.”

Although the apartment sector, long-recognized as the commercial property type that generally possesses better risk versus return characteristics, has often presented an investment conditions rating higher than those for other property types RERC rates, it has not had a rating this high since second quarter 2001, when the rating was 7.4 on the same scale. Apartment investments are proving to be safer bets during slowed economic times and are meeting the strategic initiatives of most investors.

“I wouldn’t say the apartment sector is ‘recession-proof,’ but it is the sector that is regarded as ‘most safe’ and also seems to garner the most demand when times are tough, whether it is in this recession or the last one,” said Riggs.

“With the lack of household formation during the past few years and tightened lending standards for single-family homes, consumer demand for apartments will continue to increase, along with improvement in fundamentals. Although the required discount rate for this property type is relatively low at 8.6 percent (the lowest of the property types RERC tracks), the required going-in capitalization rate is also low, with an average of 6.7 percent. The lower cap rates are also suggesting that income growth prospects are relatively attractive for this property type versus the other property sectors. This, along with the relatively low risk associated with this sector as compared to other property sectors, makes it a particularly attractive investment,” he explained.

The desire to minimize risk appears to be part of what is attracting investors to the CBD office market, too, although, according to Riggs, “investors in the office market may have a higher degree of investment fortitude and are ‘riding the edge of success’ in pursuit of higher returns and betting on the future of commercial real estate.

“The market for high-quality office property has become as competitive as I have ever seen it, and as a result, we are seeing some of the highest prices ever paid for top properties in the top-tier markets. Interestingly, bidders on these properties consider such properties fairly low-risk and seem to be willing to pay almost any price to add them to their portfolio.”

RERC’s required pre-tax yield rate for the CBD office sector remained stable at 8.9 percent during first and second quarter 2010, while the required going-in capitalization rate declined to 7.4 percent during second quarter from 7.6 percent in first quarter. The required terminal capitalization rate for this sector also declined slightly, from 8.0 percent in first quarter to 7.9 percent in second quarter.

Headquartered in Chicago, RERC was founded in 1931, and is recognized throughout the industry as one of the nation's most respected firms dedicated to independent research, valuation, consulting, independent fiduciary services, and litigation support. Quarterly investment criteria and analysis are presented for the institutional and regional commercial real estate markets, as well as for 48 major metropolitan markets, in the RERC Real Estate Report, and historical data is provided through the RERC DataCenter™.

CMBS Delinquency Rate Nears 9% - Up 21 BPs in August after Leveling in July – Rate Now 8.92%
八月總結：商業地產抵押證券的拖欠率將近 9%

By: TreppWire

The delinquency rate for commercial real estate loans in CMBS accelerated in August. This comes after two successive months in which the increases in the delinquency rate had moderated.

The August numbers may give ammunition to those who argue that the commercial real estate crisis is far from over.

The rate in August was up 21 basis points after an increase of only 12 basis points in July. One year ago, the rate of loans seriously delinquent was 3.08%. Six months ago, the rate of loans seriously delinquent was 5.97%. Even at 21 basis points, the rate of increase is well below the average jump of 35 basis points per month over the previous 11 months (after backing out the Stuyvesant Town impact in March).

Overall, the percentage of loans 30 or more delinquent, or in foreclosure or REO, jumped 21 basis points in August, putting the overall delinquency rate at 8.92%.

The increase for seriously impaired loans saw a similar jump. The percentage of loans seriously delinquent (60 days + in foreclosure, REO, or non-performing balloons) was up 20 basis points.

The number of loan modifications remains elevated. This will continue to put some downward pressure on the delinquency number as troubled loans get resolved and move from the delinquency category. REO loans that are liquidated will have a similar impact.

Separately, the average loss severity in 2010 for liquidated loans has been 45%. However, if the losses are backed out for loans where shortfalls have been 2% or less, that percentage jumps to 60%.

CMBS Spreads Tighten Again in August: Mezzanine AAA's Soar

Spreads on CMBS super seniors fell again in August but the real action was in mezzanine AAA bonds (AMs). Overall spreads tightened 15-30 basis points for the month of August for recent vintage super senior bonds.

With Treasury yields continuing to drop, some AAA bonds are approaching prices of $110.

AM bond prices jumped by $5 to $10 in some cases.

The dollar prices on some AM bonds now exceed par for higher quality names from 2005 and 2006. Many 2007 AM bonds are now trading above $90. At various points in late 2008 and early 2009, these bonds were quoted at 30 cents on the dollar or less.

The strength in AM bonds began to lift the prices for junior AAA bonds (AJs) late in the month. Credit bonds (those rated single-A or lower) from vintages 2005 and earlier continued to attract strong bids.

Government Takes Another Crack at Mortgage Woes

政府再次試圖幫助那些貸款已高於房產價值的住宅屋主；沒有拖欠的屋主可以向政府申請短售貸款重組

By: Dees Stribling (Commercial Property Executive)

The Federal Housing Administration has unveiled another government effort aimed at dealing with the after-effects of the housing bubble. The program, to be known as the FHA Short Refinance option, the predicament of underwater mortgage holders, those who owe more than their properties are worth in a post-bubble environment and who are current on their payments–and who haven't walked away from the financial albatross, as tempting as that might be.

Under the program, lenders can write down mortgages to less than the value of the home as a part of refinancing them into Federal Housing Administration-backed loans with loan-to-values of no more than 97.75 percent. In theory, the lender is getting payment immediately–a short payment to extinguish the debt–in exchange for getting rid of a mortgage that is at some risk of failure. By converting it loan into an FHA-backed one, the government thus assumes the risk.

The program is different from other government stabs at ameliorating the mortgage mess in that mortgage holders who aren't delinquent can apply for the FHA Short Refinance. But the program might well be similar to other such efforts in that the private sector might not want to go along with it. The program is voluntary on the part of everyone concerned, especially the lenders, who have so far proven less than enthusiastic about writing mortgages down by so much as a penny.

ISM Reports Non-Manufacturing Still Growing, But Slower

The Institute for Supply Management's latest survey on the U.S. non-manufacturing sector bolstered the case the double dip isn't in the cards, though growth is fairly anemic. The organization's Non-Manufacturing Index registered 51.5 percent in August, 2.8 percentage points lower than the 54.3 percent in July, which indicates continued growth in the non-manufacturing sector but at a slower rate, according to the ISM Report on Business.

Among other parts of the main index, New Orders Index decreased 4.3 percentage points to 52.4 percent in August, and the Employment Index decreased 2.7 percentage points to 48.2 percent during the month, reflecting contraction after one month of growth. The Prices Index, on the other hand, increased 7.6 percentage points to 60.3 percent in August, indicating that prices increased significantly in July. According to the NMI, nine non-manufacturing industries reported growth in August, including–remarkably–real estate and construction.

Other industries that did relatively well in August included arts and entertainment; education; transportation; and accommodation and food services. By contrast, agriculture, fishing, mining, scientific and technical services, utilities, the public sector, and retail reported contraction in August.

Private Sector Creating Some Jobs

More evidence that the economy is treading water, not sinking into the much-blabbed about double dip: some 67,000 jobs were created in August by the private sector, according to the U.S. Department of Labor late last week, and July and June's private employment numbers were revised up as well.

That didn't lower the official U.S. unemployment rate, however, which nudged up from 9.5 percent to 9.6 percent because the loss of jobs continued in the public sector, and the fact that number of jobs added isn't enough to keep up with the number of people entering the job market–including some that have been out for a while but who are now looking again.

Wall Street had the day off on Monday, but last Friday it seemed to rejoice at such good news as there was about employment and other aspects of the non-double-dip. The Dow Jones Industrial Average gained 127.83 points, or 1.24 percent, and the S&P 500 was up 1.32 percent. The Nasdaq advanced 1.53 percent.

Property Owners Use Strategic Default as a Bargaining Tool, With Some Success
業主用故意不付貸款的手段和銀行談判重組貸款；成功率不到一半

By: Elaine Misonzhnik (Retail Traffic)

As an increasing number of commercial property owners face upcoming debt maturities, more of them have started to use threats of strategic default as a bargaining tool in negotiations with lenders.

Knowing how reluctant lenders are to take back assets, borrowers of every kind, from big publicly traded REITs to private players with only a handful of centers, have tried this gambit, industry insiders say. Whether or not the strategy works depends in large part on the type of lender and the condition of the property.

“Many years ago, a good borrower would avoid using strategic default because then you would have a stigma on your image that may impact your future borrowing power,” says David T. McLain, principal with Palisades Financial LLC, a commercial real estate lending and advisory firm based in Fort Lee, N.J. “What you are seeing now, when the downturn has led to widespread defaults, they are no longer fearful because their belief is that when the economy recovers, this will be overlooked and they will be able to borrow.”

The dramatic drop in the value of retail properties, coupled with the “everybody’s doing it” mentality, has led many borrowers to consider using strategic default as a bargaining tool, says Gerard Mason, executive managing director in the New York City office of Savills LLC, a real estate services provider.

A recent Wall Street Journal story cited primarily large publicly-traded REITs as the culprits, including Simon Property Group, Macerich Co. and Vornado Realty Trust. But private owners, institutional investors and real estate funds are doing the same thing, Mason notes. Most buyers who invested in commercial real estate in the last three to five years are looking at upcoming mortgage maturities and thinking up ways to restructure, he adds.

In some cases, borrowers might not be trying to paint lenders into corners, says McLain. In instances where a loan is part of a CMBS pool, for example, it’s virtually impossible to discuss restructuring until a default has actually occurred. Only after a borrower stops making loan payments can such loans be worked out. In these cases, lenders often discreetly tell borrowers, “You need to default or we can’t do anything.”

At the same time, the “restructure or we will default” threat tends to hold the least sway with special servicers on CMBS loans because servicers have limited power to alter loan terms anyway, according to Mason.

“They are impervious to that kind of threat and their ability to restructure is practically nil,” he says. “Many times, they take it right back.”

Firms that have not restructured loans in the face of strategic default threats in recent months include PNC Real Estate/Midland Loan Services and Bank of America Merrill Lynch, according to Mason. Both PNC and Bank of America made the Mortgage Bankers Associations’ (MBA) mid-year 2010 top commercial master and special servicer list. Wells Fargo topped the list, with $462.8 billion in special servicing. PNC Real Estate/Midland Loan Services came second, with $307.9 billion, and Bank of America Merrill Lynch came fourth, with $133.4 billion.

However, commercial banks, most notably JP Morgan Chase and Citibank, have been responsive, Mason says. That’s both because they hold the loans on their books and have the authority to change the terms and because they have large commercial real estate portfolios. MBA estimates that commercial/savings bank hold more than

$1.6 trillion of U.S. real estate debt outstanding on their books, accounting for approximately 50 percent of total volume. CMBS loans, at $680 billion, make up 20 percent of real estate debt outstanding.

According to analysis of FDIC and bank data by New York City-based Real Capital Analytics, the default rate for commercial mortgages held by depository institutions was at 4.3 percent at the end of the second quarter of 2010—the highest point since 1992.

Life insurance companies also try to work with their borrowers, Mason notes, but are less likely to face strategic default threats because they lent on more conservative terms, with lower loan to value ratios, even at the peak of the real estate boom. In the first quarter of 2010, the delinquency rate on commercial/multifamily loans originated by life insurance companies was below 0.5 percent, according to Savills. The delinquency rate for CMBS loans was above 7 percent and for bank/thrift loans was above 4 percent.

When dealing with traditional lenders, property owners should concentrate on demonstrating that while the property continues to perform well, it's fallen in value and if the lender will take it back, it will be faced with the same problem, says Mason, whose firm advises borrowers in negotiations. In addition to the losses associated with missed loan payments, assuming control of the asset would result in the lender paying property management fees, which is why lenders normally don't want to assume ownership, adds McLain. It tends to be prohibitively expensive.

If after several months of negotiations, the lender still hasn't shown flexibility, it might make sense for the borrower to bring up strategic default. Mason notes that in about 40 to 50 percent of cases, the threat works and results in the lender agreeing to modified loan terms. The new terms might involve a reduced loan amount; a switch to a cash-flow mortgage; and normally, an extended term. The lenders' receptiveness to the default issue depends on the size of the loan (the bigger the amount, the more reluctant they are to take the property back), the standing of the borrower and the condition of the property.

For example, two weeks ago lenders on the $2 billion, 2.3-million-square-foot Meadowlands Xanadu project in East Rutherford, N.J. voluntarily took over control of the property from developer Colony Capital LLC. McLain says the decision appears to be the result of the lenders' recognition that the project was unfeasible in its current form. It was conceived at the beginning of the real estate boom in the early 2000s and Colony Capital seemed attached to the original idea. But the market has changed and the lenders, which include Credit Suisse Group AG and Capmark Financial Group, are reportedly seeking a new developer to re-work the project to fit the current environment.

In cases where the lenders can't imagine the borrower being able to salvage the value of the property down the road, they would rather take it back today than restructure, even if they have to take a loss, McLain notes.

Both McLain and Mason caution borrowers that the threat of strategic default should only be used as the last resort.

"The traditional banks and life insurance companies have very long memories and they don't forget a borrower who intentionally defaults," McLain says. "They could blackball that borrower in the future."

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	0.00	0.00	-	-5.25
Prime rate*	3.25	3.25	3.25	3.25	-	-5.00
Libor, 3-month	0.29	0.30	0.54	0.25	-0.01	-5.43
Money market, annual yield	0.73	0.73	1.16	0.71	-0.43	-3.11
Five-year CD, annual yield	2.33	2.35	2.71	2.33	-0.33	-2.66
30-year mortgage, fixed	4.52	4.49	5.51	4.48	-0.72	-1.66
15-year mortgage, fixed	3.97	3.95	4.87	3.95	-0.75	-1.89
Jumbo mortgages, $417,000-plus	5.57	5.71	6.52	5.55	-0.95	-1.62
Five-year adj mortgage (ARM)	3.55	3.56	4.67	3.53	-0.85	-2.63
New-car loan, 48-month	6.17	6.15	7.47	6.15	-1.21	-0.76
Home-equity loan, $30,000	5.10	5.12	5.82	5.08	-0.71	-2.28