THE WATCH LIST

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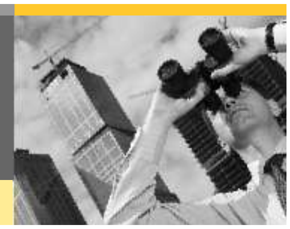

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Aussie REITs Turn Sour on U.S. Office Holdings

Charter Hall Office the Lone Australian REIT Looking To Build on its U.S. Portfolio

By: Mark Heschmeyer

With property values still falling rapidly, vacancies risings and more tenants leaving or renewing for less space, U.S. office properties have fallen out of favor with Australian REITs, with at least two looking to sell U.S. assets and another shifting its focus back to its homeland.

CoStar Group reviewed the 2009 performance and outlooks for four Australian REITs: Tishman Speyer Office Fund and RNY Property Trust, which hold only U.S. properties and ING Office Fund and Charter Hall Office REIT (formerly Macquarie Office Trust). Ironically, it is the two U.S.-only funds that currently say they intend to discard assets. Tishman Speyer is looking to sell its portfolio by 2015 and RNY say it will selectively continue selling assets.

However, it is the two multinational funds that show why U.S. office properties are out of favor.

ING Office Fund, for example, saw its like-for-like rental growth average 2.1% last year. But a look across geographies shows glaring differences. European rents went up 12.1% last year, Australian rents increased 5.7%, but U.S. rates fell 18.1%.

In like manner, ING Office Fund's average portfolio occupancy stood at 91% at the end of 2009. Australian occupancy was 96%, European occupancy was 92% but U.S. occupancy was 79%. In fact, the majority of the ING Office Fund’s current average 9% vacancy rate came from just two U.S. properties: the 219,000-square-foot Waltham Woods at 880 Winter St. in Waltham, MA, which has 201,000 square feet available for lease; and the 334,000-square-foot Park Tower at 2980 Fairview Park Drive in Falls Church, VA, which is 100% available.

ING Office Fund owns five U.S. properties in all -- two in Falls Church, one each in Dallas, New York and Boston with a combined carrying value of $437 million.

ING Office Fund reported that U.S. values appear to be stabilizing, but in assets where there is leasing risk or vacancy, values have continued to adjust downward. The fund's major operational focus this year is to achieving higher occupancy, particularly in the U.S.

"Although office markets are showing signs of improvement, conditions continue to remain challenging, particularly in the U.S. IOF's focus is to enhance its earnings and operational performance through improved occupancy and pro-active asset management over the year ahead. From a strategic perspective the fund will be looking at increasing its Australian weighting as appropriate opportunities arise," said Tino Tanfara, CEO of ING Office Fund.

Tishman Speyer Office Fund delivered a loss for the second half of 2009 of about $14.86 million. That is still better than the $203 million loss in 2008. The fund owns 16 properties in the major market areas of Seattle, San Francisco, Los Angeles, Chicago, New York, Philadelphia and Washington DC.

In the fourth quarter of last year, Tishman Speyer Office Fund announced it intends to pursue a strategy "to fully realize TSO's assets, in an orderly and efficient manner over the medium term (expected to be 2013-'15, in line with the liquidation of the Prime Plus Portfolio), with capital to be returned to unitholders."

The Prime Plus portfolio includes such properties as: 300 Park Ave. in New York, 26 stories, 777,658 square feet and 400 Castro St. in Mountain View, CA, six stories, 138,681 square feet.

Tishman Speyer Office Fund has finalized a financing of 300 Park Avenue, which was previously unencumbered. Terms have been agreed upon for a $135 million loan, which would generate net proceeds for the fund of approximately $59 million, after closing costs. That deal is expected to be completed this month. The loan proceeds will enhance the fund's liquidity and provide operational flexibility to increase portfolio occupancy. Its portfolio occupancy at year-end stood at 90.2% down from 91.4% as of June 30, 2009.

Tishman Speyer Office Fund still has $400 million of debt maturing in May 2010. As part of debt restructure negotiations, lenders have agreed significant covenants relief, including increasing the maximum gearing ratio to 85% and reducing the minimum net worth requirement to $125 million.

For the rest of the year, Tishman Speyer Office Fund said it will continue to focus on asset management and leasing to maximize asset values.

RNY Property Trust owns 24 properties in the New York Tri-State area key submarkets, which include Westchester County (New York), Fairfield County (Connecticut), Long Island (New York) and Northern New Jersey. The REIT lost $42.1 million in 2009 mainly from property value writedowns of $65 million -- a 14.6% valuation decline from year-end 2008. 2009-end occupancy was 88.4% vs. 92.9% at the end of 2008.

RNY reported that is has about $225 million in debt maturing this fall and would selectively sell assets to help deal with them, as well as pursue some mid-range extensions and restructurings.

RNY also reported having some specific tenant issues to address this year. As of Dec. 31, RNY had 501,000 square feet of space expiring in 2010, including 68,000 square feet of space to be recovered from Lend America at 520 Broadhollow Road in Melville, NY, and 32,000 square feet of space to be given back by tenants who have already signed renewals. RNY was projecting a renewal rate of only about 60% this year.

RNY said it intends to pursue a strategy of conserving cash by not paying unitholder distributions and limiting base building capital expenditures to only essential projects. RNY reported having cash on its U.S. LLC's books of $9.5 million as of Dec. 31, 2009.

Lastly, Macquarie Office Trust became Charter Hall Office REIT after Charter Hall Group in Sydney, Australia, acquired the majority of Macquarie Group Ltd.'s core real estate funds management platform.

Charter Hall Office REIT reported net property income of $158.4 million for the half year ended Dec. 31.

Unlike its sister REITs, Charter Hall Office REIT is pursuing a strategy of selling off its European and Japanese assets while building up its U.S. and Australian portfolios.

"The trust will continue to reinvest in its existing assets so that as market fundamentals improve, the portfolio will be well positioned to benefit from a recovery," said Adrian Taylor, CEO of Charter Hall Office REIT. "Specifically, we see significant opportunity to recapture value through the cycle by reinvesting into our high quality U.S. portfolio. As such, we will not look to sell assets at the low point in the cycle, but will instead invest in our U.S. portfolio to maintain and enhance occupancy and future cash flow with the objective of recovering value as markets start to improve." "We will continue to pursue an orderly exit of the smaller portfolios in Europe and Japan, in order to reduce leverage, simplify the portfolio composition and enhance liquidity over the medium-term," Taylor added.

Investment Funds Mining Bankruptcy Courts for Distressed Opportunities

By: Mark Heschmeyer

Rather than waiting for commercial real estate property values to find a bottom, a number of investment funds this past week showed they're ready to jump in now by taking direct control of companies already in distress and thus gaining early control of their property portfolios as well. The funds are finding their opportunities in bankruptcy reorganization proceedings.

Most notably in this category is the ongoing highly publicized contest of Simon Property Group, Vornado and Brookfield Asset Management, vying through a U.S. Bankruptcy Court for control of the massive General Growth Properties' mall portfolio. However, several other examples too are worth noting.

Starwood Capital Group, TPG Capital and Five Mile Capital Partners agreed to invest up to $905 million in Extended Stay Hotels Inc. as part of a recapitalization plan that would allow the hotel chain to emerge from bankruptcy.

The proposal would allow Extended Stay, which would be valued at $3.9 billion post-transaction, to emerge from bankruptcy with a significantly stronger balance sheet, reduced debt load and significant cash reserves to invest in its properties and operations.

The Extended Stay board of directors determined Starwood Capital's offer to be superior to a previous agreement with Centerbridge Partners and Paulson & Co., which was subsequently terminated.

The consortium's plan is not conditioned on any financing or due diligence provisions, but is subject to approval of the Bankruptcy Court.

"We are excited about the prospects of acquiring Extended Stay," said Barry Sternlicht, chairman and CEO of Starwood Capital Group and who would become chairman of Extended Stay. "We believe we have made a very compelling offer with the specific intent of balancing and considering the interests of all stakeholders involved here. Starwood Capital has unparalleled experience in the hospitality sector and we believe we are uniquely positioned to work with the team to help the company flourish and maximize the company's potential for all stakeholders."

As part of the agreement, the consortium would invest $450 million of equity directly into Extended Stay and has also agreed to backstop a $200 million equity rights offering, thereby infusing $650 million of new capital into the company. In addition, the consortium will commit $255 million to provide a cash alternative for creditors who prefer cash to the equity they would receive as part of the plan of reorganization.

Under the terms of the agreement, affiliates of Starwood Capital Group will provide half of the new equity, with affiliates of TPG and Five Mile Capital equally providing the remaining amount.

Extended Stays' portfolio includes:

- Extended StayAmerica – 363 hotels – 41,000 rooms
- Homestead Studio Suites – 132 hotels – 17,000 rooms
- Extended Stay Deluxe – 109 hotels – 11,200 rooms
- StudioPLUS – 46 hotels – 3,600 rooms
- Crossland – 34 hotels – 4,400 rooms

In a second example, **Trecap Partners LLC** completed its acquisition of the real estate equity investment advisory business of Capmark Investments LP, including investment management contracts and general partnership interests in its real estate equity funds. Trecap paid $19.2 million.

The $4.3 billion portfolio includes 129 multifamily and commercial properties in the United States and 41 commercial and multifamily assets in Europe. These investments are held in four U.S. funds, one United Kingdom fund and several single asset/client accounts.

Capmark Financial Group Inc. and its subsidiary Capmark Investments filed for bankruptcy reorganization through Chapter 11 proceedings last October.

"Trecap embraces the opportunity to work closely and effectively with all the clients invested in these acquired funds, who consented to this transaction," said Douglas A. Tibbetts, the CEO of Trecap, an affiliate of Hunt Companies Inc. "In especially challenging commercial real estate markets, the combined experience and knowledge in the Trecap organization and our affiliates should provide a major advantage to our investors in core and value added real estate investments."

The entire former Capmark Investments' real estate equity leadership team--Robert Fabiszewski, William Martin, Wayne Harris, Paul Dolinoy, and Gene Conway as well as 25 other employees including five in the UK are joining Trecap to continue to manage the acquired funds and client accounts.

Trecap Partners' portfolio includes:

- Multifamily: 21,621 units
- Office: 5.4 million square feet
- Retail: 3.6 million square feet
- Mixed-Use: 1.9 million square feet
- Industrial: 1.2 million square feet

In yet a third example, **Tiptree Financial Partners** LP entered into a definitive agreement to acquire Care Investment Trust Inc., a real estate investment and finance company investing in health care-related real estate and commercial mortgage debt. Care is externally managed and advised by CIT Healthcare LLC, a wholly-owned subsidiary of CIT Group Inc., which also is undergoing Chapter 11 bankruptcy reorganization.

Tiptree will gain control of the company through a combination of an equity investment in newly issued common stock at $9 per share and a cash tender offer by Care for up to 100% of its currently issued and outstanding shares of common stock at the same price,

Care would terminate its existing management agreement with CIT Healthcare.

As of Dec. 31, 2009, Care Investment Trust owned 14 assisted living, independent living and Alzheimer-care facilities with 643 units in Illinois, Indiana, Iowa and Nebraska. It owned an 85% equity interest in nine Class A medical office buildings developed and managed by Cambridge Holdings Inc. totaling 767,000 square feet in Texas (8) and Louisiana (1) and controlled $25.3 million in three investments in mortgage loans

Hotel CMBS Defaults May Hit 30% By 2012

By: Mark Heschmeyer

The dismal performance of U.S. hotels since their peak of 2008 has Fitch Ratings predicting that defaults should double from current levels by 2012. Hotel defaults will be most pronounced in 2011 and 2012 when the largest concentration of loan maturities occur.

Hotel revenue has declined almost 20% since 2008, the largest decline among the major CMBS property types, according to Fitch. Cash flows are not expected to increase until 2011. In addition, capitalization rates have increased, according to Fitch. As a result, hotel property values have fallen as much as 50% from their peak in 2007.

The magnitude of income and value declines in 2009 were a result of reduced travel in the corporate and leisure sector, capital constrained borrowers, and a frozen financing market for property trades. Since hotels do not have long-term contractual leases, and rates can be re-set on a daily basis, they have been especially hard hit by the economic downturn. Also, given lower free cash flow from the properties, capital investments have been postponed, affecting future hotel operating performance.

Of the $42 billion Fitch rated hotel loans originated during 2006-2007, 45% were floating rate. As a result of a record low London Interbank Offering Rate (LIBOR), borrowers in many cases have been able to keep their loans current, despite lower operating cash flows.

However, of the floating rate hotel loans originated during 2006-2007, 78% mature in 2011 and 2012. Many of these loans will have difficulty refinancing given their lower values and operating cash flows and higher debt yields required by the lenders. Therefore, mainly due to upcoming maturity concerns, Fitch Ratings projects that delinquencies will increase from 16.6% as of February 2010 to 25-30% in 2012.

Poor performance too is also affecting older vintage loans as well. Atlas Hospitality Group has been retained as the exclusive loan sale advisor for the sale of a nonperforming commercial loan secured by the 182-room Ramada Plaza Hotel at 2151 Hotel Circle South in San Diego, CA. The $12.175 million loan was originated in December 1998. The loan, currently in default, matured in January 2009.

"I think this is of interest as it is the first CMBS hotel loan in San Diego that has been exclusively listed for sale and it is from a much earlier period (1998) than the typical loans that have defaulted (2005-2007). We see this as a growing trend with lenders, looking to sell the loans before the foreclosure date," said Alan X. Reay, President of Atlas Hospitality Group in Irvine, CA.

Toll Bros. Steps Up Land Grab Activity

Since the start of its fiscal year 2010, Toll Brothers Inc. in Horsham, PA, has stepped up its land buying activities. In the last four months, the company has purchased or put under control 3,000 home sites via mortgage note purchases and direct acquisitions of real estate.

Most recently, the company purchased Hasentree in Wake Forest, NC, a premier residential golf course community. The seller was a financial institution. Toll Brothers acquired the community's remaining 318 home sites, its Tom Fazio designed golf course, walking trails and 13,000-square-foot Family Activity Club. The company plans to immediately resume work on the community and has also placed other properties in the area under contract.

"The acquisition of this premier community and others reflects our strategy of opportunistically securing challenging luxury sites to fuel the future growth of the company," said Douglas C. Yearley, Jr., executive vice president of Toll Bros.

Frederick N. Cooper, senior vice president of finance, added that, "We continue to work cooperatively with our partner banks and dozens of other financial institutions, as well as builders and land developers, to structure creative solutions to distressed land deals at all stages. We are purchasing real estate directly as well as acquiring mortgage notes for sites at all stages of development, ranging from properties where construction has yet to begin to communities in mid-stream."

Market Turnaround Waiting on More Money, Better Prices

Private commercial real estate investors believe it will take another year and half before the investment market begins to strengthen, according to a poll conducted by Lee & Associates-Investment Services Group in Los Angeles (Lee-ISG).

Of those polled, nearly 82% said that prices for commercial real estate had not yet begun to stabilize and about half project that it will be at least 18 months before the market begins to gain traction. Only 23% of those polled thought that the market would start to turn around in less than one year.

"These responses are consistent with our understanding that the difficulties in the credit markets are continuing to hamper a recovery in the investment real estate sector," said Mark Larson, vice chairman of Lee-ISG. "Until banks speed the pace of workouts on problem loans and foreclosures, we don't have a clear picture of where values will settle, and the inventory of properties for sale is still too small to establish market pricing."

Indeed, the poll also found that 62% of all the assets purchases in the fourth quarter were made with lender financing. Another 26.4% of respondents said they purchased assets on an all-cash basis.

When asked what they think will turn the market around, 55% of those polled said available financing followed by better pricing.

A majority of investors polled – 72% – said that sellers had become only "slightly" more realistic in their pricing.

"The consensus seems to be that sellers would like to sell on last year's pricing while buyers believe values are declining further," Larson said. "It is unclear if the bottom has occurred as we are just seeing lending institutions getting back non-performing assets."

Continued Housing Setbacks Could End Soon

A surprising drop in new and existing home sales reported this past week is being viewed as temporary by Fannie Mae's Economics & Mortgage Market Analysis Group.

The group is predicting that housing activity could rebound later this year but at a slower pace than previously projected, according to Fannie Mae's March 2010 Economic Outlook released today by.

Gains are expected to start showing up in the second quarter then trending up on a sustainable basis by year end. The outlook continues to call for moderate economic growth of 3%% for 2010, as the labor market appears poised to create jobs, the service sector shows improvement, and consumer spending joins in as part of the economic storyline. Consumer spending grew a solid 0.3% in January, suggesting a pickup in the first quarter despite the possibility of a slowdown in February.

"The recent growth in consumer spending is a positive sign for first quarter gains. However, anxiety over job and income prospects continues to weigh on consumer confidence which will likely lead to moderate spending growth in the coming quarters," said Fannie Mae chief economist Doug Duncan. "Strengthening growth in the service sector and more favorable financial conditions overall keep us optimistic that we are moving forward with the recovery, albeit at a lower trajectory than previously forecast."

Regulators Calling for Tougher CRE Lending Guidance

By: Mark Heschmeyer

U.S. banking regulators continued their drumbeat of warnings this past week concerning commercial real estate loan concentrations. This time it was Comptroller of the Currency John C. Dugan speaking in Orlando before the Independent Community Bankers of America National Convention.

Dugan told the bankers that conditions have proved bankers opposition to stricter commercial real estate loan guidance issued in 2006 were unwarranted and, in fact, have proved not to have been rigorous enough.

"Given what we know, I think we need to revisit the issue of the appropriate regulatory response to CRE lending concentrations, especially for construction and development lending, and especially for concentrations supported by non-core funding," Dugan said. "While the concentration guidance we issued in 2006 was necessary – even though it was opposed by many parts of the industry – in retrospect, it has obviously not worked as well as we would have liked."

"In fact, we have tried very hard to get ahead of the commercial real estate aspect of this crisis through a series of communications to examiners and bankers beginning in 2005 and extending into this year," he said. "While we were criticized early on as being unduly stringent relative to other regulators, we frankly have heard far less of that type of complaint recently – which we see as evidence of the consistency of our expectations."

"Given the surge in losses, problem banks, failures, and costs to the deposit insurance fund – costs that will have to be borne by healthy banks for a very long time – I don't think the status quo is acceptable," Dugan said. "We need to take action, after thoughtful and careful study, to reduce the exposure of the industry and the insurance fund, to such large losses – before the next downturn comes, as it surely will."

The comptroller said that experience from the late 1980s and the early 1990s, and from the current period showed that significant concentrations in CRE lending leaves banks vulnerable to an economic downturn – "and the higher the concentration, the more vulnerable the bank."

While a healthy economy will mask problems with poor underwriting for a while, Dugan said, a rapid buildup of commercial real estate loans is likely to overwhelm risk management controls, and some concentrations are so large that even the most sophisticated control systems cannot protect the bank from a serious economic downturn.

"We know that banks that build concentrations in CRE are more likely to rely on noncore and/or high interest funding," he said. "And we know that significant CRE concentrations in economic downturns can lead to an increase in problem banks, an increase in bank failures, loss of jobs, loss of incomes, loss to communities, loss to the deposit insurance fund, and higher costs for all banks, even those that do not have CRE concentrations."

Dugan said policymakers should consider a range of options such as harder limits, increased capital requirements, a more granular approach to defining concentrations (since not all CRE is the same), minimum underwriting standards, more stringent requirements for concentrations supported by substantial amounts of non-core funding, or some combination of the above.

Noting that newly-chartered institutions are overrepresented among bank failures, Dugan said consideration should be given to minimum federal standards for all newly chartered depository institutions, with a particular focus on business plans that call for significant CRE concentrations or reliance on non-core deposits for extended periods.

However, Dugan also warned that regulators should exercise care in moving ahead during the current economic environment.

"We should not do any of this in haste, or in ways that would exacerbate the current problems of distressed banks," he said. "Any course of action would have to be carefully phased in taking into account the current activities of all banks."

The comptroller said that while the vast majority of community banks are sound problem banks represented almost 9% of all insured depository institutions at the end of 2009. Since the start of the crisis, 195 banks, nearly all of them community banks, have failed, and projected failures this year are expected to exceed the 145 that were closed last year.

Sterling Financial Looking to Private Equity Firms for Help

By: Mark Heschmeyer

Sterling Financial Corp. in Spokane, WA, is in active negotiations with several private equity investors, its major creditors and its regulators about various strategic alternatives designed to put Sterling to allow it to recapitalize.

As part of that plan, Sterling requested and received a letter from the U.S. Department of the Treasury expressing conditional support for a plan to convert the Sterling preferred stock that Treasury holds into Sterling common stock. In addition, Sterling said it has received several non-binding proposals from private equity firms, and has entered into a non-binding letter of intent with one firm to provide additional capital to recapitalize Sterling.

"We continue to make progress toward raising capital and improving our financial condition. We are encouraged by the positive recognition of the value of Sterling's franchise and the continued loyalty of the customers and the communities we serve," said Greg Seibly, president and chief executive officer of Sterling Financial Corporation. "Treasury's expression of support for this proposed conversion of its preferred stock is a significant step in Sterling's capital recovery plan."

Following the news, Fitch Ratings downgraded Sterling Financial's long-term issuer default rating to 'C' from 'CCC' and Sterling Savings Bank's long-term and short-term IDRs to 'C' and 'C', respectively.

Fitch said its downgrade reflects its view that Sterling Financial's ability to raise capital will be difficult under many of the conditions set forth by the U.S. Treasury under its conditional approval for the conversion of preferred stock. In order to consummate the conversion successfully, the company must obtain consent for the repurchase of its trust preferred securities from a substantial portion of holders (at a substantial discount to par). In addition, Sterling Financial must raise an additional $650 million of common equity. If the transactions were successfully consummated, Fitch anticipates that Sterling Financial's long-term IDR would be downgraded to restricted default.

Separately, in October 2009, Sterling Savings Bank entered into an order to cease and desist with the FDIC requiring it to raise an additional $300 million of Tier 1 capital and achieve and maintain a Tier 1 leverage ratio not less than 10% by Dec. 15, 2009. The additional capital needed to achieve this requirement has yet to come to fruition. Fitch estimates that at Dec. 31, 2009, the company would need more than $600 million of Tier 1 capital to meet the FDIC's minimum leverage capital ratio outlined in the October 2009 cease and desist. This estimate does not consider any further losses that may occur in 2010.

The Park Avenue Bank in New York Goes Down; Former CEO Arrested

By: Mark Heschmeyer

The New York State Banking Department closed The Park Avenue Bank in New York City and appointed the FDIC) as receiver, which then entered into a purchase and assumption agreement with Valley National Bank of Wayne, NJ, to assume all of the deposits.

Following the closure and transfer of deposits, federal agents arrested Charles J. Antonucci, Sr., the former president and CEO of The Park Avenue Bank, on allegations of self-dealing, bank bribery, embezzlement of bank funds and fraud, among other things.

As of Dec. 31, 2009, The Park Avenue Bank had approximately $520.1 million in total assets and $494.5 million in total deposits. Valley National Bank paid the FDIC a premium of 0.15% to assume all of the deposits and agreed to purchase essentially all of the assets.

The FDIC and Valley National Bank entered into a loss-share transaction on $379.8 million of The Park Avenue Bank's assets. Included in those assets were $23.8 million in commercial real estate loans that were either 90 or more days delinquent or already in nonaccrual status. The bank also reported another $1.8 million in foreclosed nonresidential properties.

The U.S. Attorney for the Southern District of New York has charged Antonucci with allegedly attempting to obtain fraudulently more than $11 million worth of taxpayer rescue funds from the Troubled Asset Relief Program. Antonucci is the first defendant ever charged with attempting to defraud TARP. In addition, Antonucci was alleged to have used The Park Avenue Bank in a scheme to defraud two pastors of a Florida congregation out of more than $100,000 set aside to build a new church.

Lawyers for Antonucci said they expect him to plead not guilty to the charges.

Amcore Gets Aggressive on Bad Assets;
Receives Nasdaq Noncompliance Notice

By: Mark Heschmeyer

Amcore Financial Inc. received a notice from The Nasdaq Stock Market (Nasdaq) stating that because the minimum bid price of the company's common stock was less than $1 per share for 30 consecutive business days, the company was not in compliance with market rules.

Amcore is provided a grace period of 180 calendar days to regain compliance or be subject to delisting.

Amcore Financial, the bank holding company for Amcore Bank in Rockford, IL, said it intends to actively monitor the bid price for its common stock and will consider available options to regain compliance.

Amcore Financial reported assets of $3.4 billion at the end of the year and losing $180.7 million over the last two quarters of 2009.

"Our strategy continues to focus on a series of initiatives designed to improve asset quality, capital ratios and operational efficiencies in order to better position Amcore to attract capital and support our core markets," said William R. McManaman, chairman and CEO of Amcore when announcing quarterly earnings. "For the first time since fourth quarter 2007, Amcore realized meaningful credit quality improvements. In the fourth quarter, we were aggressive in our charge-offs and continue to work to reduce our non-accrual loans."

- Non-accrual loans decreased $93 million, or 22%, compared to the third quarter.
- Non-performing loans decreased $81 million, or 19%, compared to the third quarter.
- The decrease in non-accrual and non-performing loans was achieved, in part, through the highest settlement and collection recoveries in the past two years, which were $31 million in the fourth quarter.
- Commercial loans moving from performing to non-performing were at their lowest level in eight quarters at approximately $27 million.
- Delinquencies declined by $3 million, or 6%, to $54 million compared to third quarter 2009, their lowest level since fourth quarter 2006.

Community & Southern Takes Over Closed Appalachian Community Bank

By: Mark Heschmeyer

The Georgia Department of Banking and Finance closed Appalachian Community Bank in Ellijay, GA, and appointed the FDIC as receiver, which then entered into a purchase and assumption agreement with Community & Southern Bank in Carrollton, GA, to assume all of the deposits and all 10 branches.

As of Dec. 31, 2009, Appalachian Community Bank had approximately $1.01 billion in total assets and $917.6 million in total deposits. Community & Southern Bank will pay the FDIC a 1% premium to assume all of the deposits and agreed to purchase essentially all of the assets.

The FDIC and Community & Southern Bank entered into a loss-share transaction on $798.6 million of Appalachian Community Bank's assets.

The FDIC estimates that the cost to its Deposit Insurance Fund will be $419.3 million.

This past November, Appalachian Bancshares Inc., the holding company for Appalachian Community Bank, placed three bank officers on administrative leave, pending an internal evaluation pertaining to certain specific policy and compliance issues dealing with foreclosed properties. The officers put on administrative leave included its CEO, chief credit officer and real estate owned officer.

As of Dec. 31, Appalachian Community Bank listed $133 million in foreclosed assets up from $13 million a year earlier. Included in its foreclosed assets were $24.3 million in multifamily and nonresidential properties. It also listed about $100 million in nonperforming loans, which included about $7 million of commercial real estate related loans.

It should be noted that the closure did not involve Appalachian Community Bank FSB in McCaysville, GA, which continues to operate as usual.

Small Business Lender Advanta Bank Closed; No Buyer Found

By: Mark Heschmeyer

The FDIC approved the payout of the insured deposits of Advanta Bank Corp. in Draper, UT. The bank was closed today by the Utah Department of Financial Institutions, which appointed the FDIC as receiver.

The FDIC was unable to find another financial institution to take over the banking operations of Advanta Bank.

As of December 31, 2009, Advanta Bank Corp. had approximately $1.6 billion in total assets and $1.5 billion in total deposits. It was one of the nation's largest issuers of MasterCard business purpose credit cards.

Real Money: Capital Raisings & Property Financings

Harrah's Entertainment Inc. received unanimous consent from its commercial mortgage back securities (CMBS) lenders to amend the terms of approximately $5.5 billion in loans. Under the revised terms, Harrah's will have the option to extend the CMBS loan maturity date to 2015 and Harrah's will have the ability to purchase CMBS loans at a discounted rate in the future. As a part of this agreement, Harrah's has also agreed to purchase approximately $124 million face value of CMBS loans for $37 million. Harrah's began purchasing discounted CMBS loans in the fourth quarter of 2009 and purchased approximately $950 million of face value loans for approximately $237 million. Pursuant to the amendments, the borrowers under the CMBS loans have agreed to pay the selling lenders an additional $48 million for the loans previously sold.

KBS Capital Markets Group has launched two new public REIT stock offerings. **KBS Strategic Opportunity REIT** Inc. KBS Strategic Opportunity REIT will offer up to 100 million shares of common stock in a primary offering at a maximum price of $10 per share. It will use the proceeds to invest in and manage a diverse portfolio of real estate-related loans, real estate-related debt securities and other real estate-related investments. **KBS Legacy Partners Apartment REIT** will offer up to 200 million shares of common stock in a primary offering at a maximum price of $10 per share. It will use the proceeds to acquire and operate well-positioned apartment real estate that is producing rental income, as well as opportunity-oriented properties at various phases of leasing, development, redevelopment and repositioning.

ProLogis closed its offering of fixed-rate and convertible senior notes priced bringing the company's convertible senior note issuance to $460 million. Combined with $1.1 billion of the 7- and 10-year notes, the company has closed on net proceeds of $1.54 billion of senior notes.

Pennsylvania Real Estate Investment Trust closed on a secured credit facility with $520 million of term loans and a $150 million revolving line of credit with its bank group, led by Wells Fargo Bank. The new credit facility has a term of three years with a one-year extension option. Depending on the company's leverage, the facility bears interest at an annual rate between 4% and 4.9% over LIBOR, with no interest rate floor. The initial rate was 4.9% over LIBOR. The proceeds from the credit facility were used to pay down the previous $500 million unsecured revolving credit facility and $170 million unsecured term loan that were scheduled to mature on March

20, 2010. The company's obligations are secured by mortgages on 22 of the company's properties, and a second lien on one property.

Vornado Realty Trust priced an offering of $500 million aggregate principal amount of 4.25% senior unsecured notes due April 1, 2015. Interest on the notes will be payable semi-annually on April 1 and Oct. 1, commencing in 2010. The notes were priced at 99.834% of their face amount to yield 4.287%. The net proceeds of approximately $496 million will be used for general corporate purposes.

Health Care REIT Inc. priced its offering of $342.4 million aggregate principal amount of 3% convertible senior notes due 2029. The notes will be senior unsecured obligations and mature on December 1, 2029. The notes will pay interest semi-annually at a rate of 3% per year. The notes may be redeemed, in whole or in part, by Health Care REIT from time to time on or after December 1, 2014 and at any time to preserve Health Care REIT's status as a REIT. Health Care REIT intends to use the net proceeds to repurchase a portion of its 4.75% convertible senior notes due 2026 and 2027.

Developers Diversified Realty Corp. priced $300 million of senior unsecured notes in an underwritten public offering. The offering consists of $300 million of 7.50% notes due April 2017. The notes are being offered to investors at a price of 99.995% with a yield to maturity of 7.50%. Interest on the notes will be paid semi-annually on October 1 and April 1. The net proceeds are expected to be $296.8 million, which the company intends to use to repay debt with shorter-term maturities and to reduce balances on the company's revolving credit facilities.

Wyndham Worldwide Corp. completed a term securitization transaction involving the issuance of $300 million of investment-grade asset-backed notes. Sierra Timeshare 2010-1 Receivables Funding LLC issued $300 million of A rated vacation ownership loan backed notes, which have an advance rate of 72.25% and a coupon of 4.48%.

Camden Property Trust created an equity share offering program through which it can sell common shares having an aggregate offering price of up to $250 million. The company intends to use the proceeds for general corporate purposes, which may include reducing borrowings under its unsecured line of credit, the repayment of other indebtedness, the redemption or other repurchase of outstanding debt or equity securities, funding for development activities and financing for acquisitions.

HRPT Properties Trust priced a public offering of 30 million common shares of beneficial interest at a public offering price of $7.25 per share. Underwriters picked up an option to purchase an additional 4.5 million common shares for additional proceeds of $31.2 million. HRPT expects to use the net proceeds to repay amounts outstanding under its $750 million revolving credit facility and fund general business activities Including possible future acquisitions.

SL Green Realty Corp.'s **Reckson Operating Partnership** LP completed an offering of $250 million aggregate principal amount of 7.75% senior unsecured notes due March 15, 2020. The company intends to use the net proceeds to fund its previously announced tender offer for certain outstanding notes of Reckson and SL Green, with the remaining proceeds, if any, being used for general corporate purposes and/or working capital purposes.

Great Wolf Resorts Inc. intends to offer first mortgage notes in the amount of $225 million due 2017, subject to market conditions. The company plans to use the net proceeds from the offering to repay the outstanding mortgage debt on its Mason, OH; Williamsburg, VA; and Grapevine, TX properties, totaling $212 million. The balance of the net proceeds, if any, will be used for general corporate purposes.

Hersha Hospitality Trust commenced a public offering of 19 million common shares of beneficial interest. The company intends to use the net proceeds of the offering to repay outstanding indebtedness under its revolving line of credit and for general corporate purposes.

Equity One Inc. closed a public offering of 4.83 million shares of its common stock Including 630,000 shares issued pursuant to the underwriter's over-allotment option, resulting in approximately $87.6 million of net proceeds to the company, after deducting expenses. Concurrently with the closing of the public offering, MGN America LLC, and Gazit America Inc., two entities affiliated with Equity One's largest stockholder, Gazit-Globe, Ltd., purchased directly from the company an aggregate of 600,000 additional shares of common stock resulting in net proceeds to the company of approximately $11 million. The company intends to use the net proceeds for the repayment of outstanding mortgage debt, acquisitions and general corporate purposes.

First Potomac Realty Trust's underwriters have exercised their option to purchase an additional 825,000 common shares of beneficial interest in the company to cover over-allotments. Including the over-allotment, the company sold a total of 6.325 million shares in its follow-on offering, raising net proceeds of approximately $87.3 million.

HFF arranged $85 million in financing for the Lantana Media Campus, a 462,429-square-foot Class A office campus in Santa Monica, CA, on behalf of the borrower, **The Lionstone Group**. The fixed-rate financing was secured through Cornerstone Real Estate Advisers.

CB Richard Ellis' Capital Markets Debt & Equity Finance group arranged a $38 million, short-term fixed-rate mortgage loan for Metropolitan Center, a 421,050-square-foot Class A office building at 1 Meadowlands Plaza in East Rutherford, NJ. CBRE represented the borrower, **Strategic Partners U.S. Value V**, in this transaction and Northwestern Mutual Life acted as the lender. The mortgage financing followed Strategic Partners' 2008 acquisition of the property, which was originally purchased as part of a larger portfolio. The financing secured is at a competitive rate for a 5-year term and 25-year amortization. The building was 85% occupied at closing and is recognized as one of the premier facilities in the market.

Behringer Harvard Multifamily REIT I has completed three recent financings.

- 4550 Cherry Creek. It entered into a Fannie Mae-financed loan with CBRE Multifamily Capital Inc., as lender, to borrow $28.6 million. The loan bears interest at an annual rate of 4.23%, has a 60-month term with monthly interest-only payments and matures on March 1, 2015.
- Calypso Apartments and Lofts. It entered into a Freddie Mac-financed loan with CBRE Multifamily Capital Inc., as lender, to borrow $24 million. The loan bears interest at an annual rate of 4.21%, has a 60-month term with monthly interest-only payments and matures on March 1, 2015.
- Mariposa Loft Apartments. It entered into a Freddie Mac-financed loan with NorthMarq Capital LLC, as lender, to borrow $15.82 million. The loan bears interest at an annual rate of 5.21%, has an 84-month term with monthly interest-only payments and matures on March 1, 2017.

Arbor Commercial Funding LLC funded the following two deals.

- A $21.81 million loan under the Fannie Mae DUS Loan product line for the 317-unit Hilltop Portfolio spread over eight buildings and 23,710 square feet in New York, NY. The 6.5-year loan amortizes on a 30-year schedule and carries a note rate of 5.41%. And
- A $20 million loan under the Fannie Mae DUS product line for the 320-unit Cobblestone Village Apartments in Summerville, SC. The 10-year loan amortizes on a 30-year schedule and carries a note rate of 5.88%. **Carolina Mortgage Co**. arranged the deal.

Berkadia Commercial Mortgage originated $17.5 million in debt to refinance Red Lion Plaza, a 229,200-square-foot shopping center in Northeast Philadelphia. The interest rate on the non-recourse loan was fixed at 6.25%.The borrower was **RL Shopping Center LP**, which paid off its maturing acquisition loan and recapture recent capital investments at the center.

Ann Taylor Closing 72 Stores; Opening 30

By: Sasha M. Pardy

Women's apparel retailer, Ann Taylor Stores Corp. expects to close another 72 stores this year, which would complete its previously announced restructuring program set to include the three-year closure of 174 stores.

Of the 2010 closures planned, 14 will shutter in the first half of the year, while the remaining 58 will shutter in the last half of the year. Aside from these closures, Ann Taylor is planning to open 20 Loft Outlet and 10 Loft stores during 2010. In total, the company expects store square footage to be down about 3% for the year.
Last year, Ann Taylor opened 14 new stores and closed 42 stores. In addition, the company converted 11 Ann Taylor stores into Loft stores; which all together created a 3% reduction for the retailer in 2009.

Currently, Ann Taylor operates 907 stores comprised of 291 Ann Taylor stores, 506 Loft stores, 92 Ann Taylor Factory stores and 18 Loft Outlet stores. The average Ann Taylor store is 5,312 square feet; the average Ann Taylor LOFT store is 5,882 square feet; and the average outlet store is 6,667 square feet.

Lease Cancellations

Atrium Cos. is rejecting seven commercial property leases in connection with its January 20 bankruptcy filing. The manufacturer of windows and patio doors estimates that rejecting these contracts, as well as three equipment leases, would save $270,710 per month. Additionally, Atrium received approval last week to access its $40 million Debtor-in-Possession (DIP) financing. The company is working with lenders on a restructuring plan that could reduce its debt by $350 million.

Cooper-Standard Holdings, parent company of Cooper-Standard Automotive, filed for bankruptcy in August of last year. The manufacturer of automotive sealants is terminating its warehouse lease in Bowling Green, OH. Additionally, the company has reached an agreement with most of its debt holders that would allow them to be repaid in stock rather than cash. Cooper-Standard's restructuring plan is estimated to raise $355 million in new equity.

Swoozies Inc., which filed for bankruptcy on March 2, is rejecting its warehouse lease in Atlanta. The designer of stationary and gifts has three years remaining on the four-year contract. An early termination would save the company $90,224. Swoozies intends to move its additional inventory to its local stores.

Company	Address	Affected Parties	Comment
Atrium Cos.	3600 Port Jacksonville Pky, Jacksonville, FL	Gwinnett Industries, Inc.	exp. 1/21/2016, rent: $85,805/mo, 186,652 SF.
Atrium Cos.	6935 Speedway Blvd, Las Vegas, NV	Speedway Commerce, LLC	exp. 3/31/2010, rent: $8,243/mo, 11.932 SF.
Atrium Cos.	2610 Lycoming Way, Stockton, CA	Stockton 215 Venture	exp. 5/7/2010, rent: $9,491/mo, 20,000 SF.
Atrium Cos.	6698 Fleet Dr, Alexandria, VA	OTR	exp. 2/28/2011, rent: $8,226/mo.
Atrium Cos.	1785 S Proforma, Ontario, CA	Corsair Property Mgmt.	exp. 12/31/2012, rent: $17,403/mo.
Atrium Cos.	3821 Fiscal Ct, Riviera Beach, FL	CJS Holdings, LLC	exp. 10/31/2010, rent: $16,006/mo, 14,280 SF.
Atrium Cos.	710 Bridgeport Ave, Shelton, CT	Reckson Operating Partnership	exp. 7/1/2014, rent: $54,653/mo.
Cooper-Standard	333 Van Camp St, Bowling Green, OH	MCP Enterprises, Ltd.	unknown
Swoozie's Inc.	1231 Collier Rd, Ste E, Atlanta, GA	Mews Development Co.	exp. 3/15/2012, 5,200 SF.

Loan Maturities

The following is a weekly feature from CoStar Group of debt on commercial real estate properties that approaching their loan maturity date. The information is a valuable source of leads on potential refinancing or property sale or servicing opportunities. The information for these listings comes from collateral and loan information filed with securities regulators.

Property Name	Address	Property Type	Payment Status	Curr Bal	Maturity Date
Thunderbird Plaza	13806 N. 51st Ave., Glendale, AZ	Retail	Current	$864,704	6/11/2010
US Storage Centers	1652 Newport Blvd., Costa Mesa, CA	Self Storage	Late payment but less than 30 days delinquent	$839,812	6/1/2010
800 Traction Avenue Apartments	800 - 810 E. Traction Ave., Los Angeles, CA	Multifamily	Current	$522,632	6/1/2010
Vermont Center	900 N. Vermont Ave., Los Angeles, CA	Retail	Current	$756,946	6/1/2010

Property Name	Address	Property Type	Payment Status	Curr Bal	Maturity Date
38-40 Colorado Blvd.	38-40 E. Colorado Blvd., Pasadena, CA	Retail	Current	$589,912	6/1/2010
Key Bank Building	3300 E. First Ave., Denver, CO	Office	Current	$90,089	6/1/2010
Roosevelt Glen Release Parcel	799 Roosevelt Road, Glen Ellyn, IL	Office	Payment not received but still in grace period or not yet due	$866,622	6/1/2010
4405 16th Ave.	4405 16th Ave., Brooklyn, NY	Multifamily	Payment not received but still in grace period or not yet due	$280,061	6/1/2010
131-133 Boerum St.	131 133 Boerum St., Brooklyn, NY	Multifamily	Payment not received but still in grace period or not yet due	$523,785	6/1/2010
114 Anderson Place	114 Anderson Place, Buffalo, NY	Multifamily	Current	$567,360	6/1/2010
40 Lydecker St.	40 Lydecker St., Nyack, NY	Office	Payment not received but still in grace period or not yet due	$775,226	6/1/2010
Coach Light Apartments	2405 E. Park Row Drive, Arlington, TX	Multifamily	60-89 days delinquent	$462,509	6/1/2010
Oak Creek Apartments	3500 Decker Drive, Baytown, TX	Multifamily	Current	$457,287	6/11/2010
South Lake Center	2303- Kirkwood Drive, Houston, TX	Retail	Current	$473,303	6/1/2010

Watch List

The following is a weekly feature from CoStar Group of properties affected by worsening financial or property conditions, borrower issues, or tenant issues. The information is a valuable source of leads on potential refinancing or property sale or servicing opportunities. The information for these listings was provided by Investcap Advisors LLC, an industry leader in providing surveillance data on loan and commercial real estate performance underlying the Commercial Mortgage Backed Securities (CMBS) market.

Property	Address	Property Type, Size	CMBS; Master and Special Servicer	Comment
United States Post Office	1310 State Route 64 NW, Ramsey, IN	Office, 1,829	BEAR99F1; Midland Loan Services	The loan is current. Loan was transferred to special servicing on 9/11/09. Payments are remitted directly to the lender from the U.S. Postal Service. The borrower has not responded to the tenant's request for repairs. The tenant proceeded with the repairs and has shorted the payments in order to recover the expenses.
Miramar Professional Plaza	8910 Miramar Parkway, Miramar, FL	Office, 30,493	MCCMT06C4; Wachovia Bank	90+ days delinquent; transferred to special servicing on 5/20/09.
2141 West Shore Road	2141 W. Shore Road, Warwick, RI	Office, 2,900	CBA005-1; Midland Loan Services	90+ days delinquent. Loan was transferred to special serviceing11/11/08 due to the payment default. Current occupancy is 50%.
Ford City Office Plaza	7601 S. Kostner Ave., Chicago, IL	Office, 50,791	MCCMT06C4; Wachovia Bank	90+ days delinquent; transferred to special servicing on 6/24/09.
Berkshire Office Building	501 Washington St., Reading, PA	Office, 100,000	MCCMT07C5; Wachovia Bank	90+ days delinquent. The loan (A Note) as well as the (B-Note) were transferred to special servicing on 4/15/09 for monetary default. Occupancy is 67%.
1500 East Katella Avenue - Unit O	1500 E. Katella Ave. - Unit O, Orange, CA	Office, 1,978	CBA005-1; Midland Loan Services	90+ days delinquent. Loan was transferred to special servicing on 8/19/2008 due payment default. The property' is 100% owner occupied.
Saint Rita's	2350 N. Forest Road, Getzville, NY	Office, 63,359	MCCMT06C4; Wachovia Bank	90+ days delinquent. Loan transferred to special servicing effective 10/12/2009.
New Vision Office Park	3600-4000 New Vision Drive;10620 Corporate Drive, Fort Wayne, IN	Office,	MCCMT07C5; Wachovia Bank	Less than 30 days delinquent.
Schuerman Law Firm	507 N. Walnut St., Batesville, IN	Office, 8,450	CSF01CK6; Midland Loan Services	90+ days delinquent. Occupancy is 100% borrower occupied. Loan is due for 05/01/2008.
The Pointe Office / Retail Buildings	1427 & 1429 W. Saginaw St., Lansing, MI	Office, 29,938	MCCMT05C3; Wachovia Bank	Lender was successful bidder at foreclosure on 5/28/2009. Property is in its redemption period.
620 Indian Circle	620 Indian Circle, Perris, CA	Office, 10,000	CBA005-1; Midland Loan Services	Current. The loan is now due for 1/1/10; the borrower has made 11 payments since June 2009.
United States Post Office	800 Taylorsville Road, Taylorsville, KY	Office, 6,385	BEAR99F1; Midland Loan Services	Current. Loan was transferred to special servicing due to borrower's property tax payment default as well as payment default.
Olympic Towers	300 Pearl St., Buffalo, NY	Office, 140,482	MCCMT05C3; Wachovia Bank	90+ days delinquent. The special servicer has been advised that the GSA FDA lease proposal for approximately 18,000 square feet was awarded to another building. FDA us requesting 18 month extension of current lease in the collateral property.
Marathon Center	2323 E. Capitol Drive, Appleton, WI	Office, 70,630	MCCMT05C3; Wachovia Bank	Loan transferred to special servicing 1/21/2010 for maturity default.
Park Place Lapalma	1743 Park Center Drive, Orlando, FL	Office, 38,592	MCCMT06C4; Wachovia Bank	90+ days delinquent. The loan was transferred to special servicing for the second time 1/9/2009 for monetary default.

Property	Address	Property Type, Size	CMBS; Master and Special Servicer	Comment
Wayne State University	2751-2761 Jefferson Ave., Detroit, MI	Office, 91,087	MCCMT07C5; Wachovia Bank	90+ days delinquent. The loan transferred to special servicing 3/11/2009 for monetary default. The property is 80% occupied by the Wayne State University Psychiatry Department.
1129 Northern Boulevard	1129 Northern Blvd., Manhasset, NY	Office, 65,820	MCCMT05C3; Wachovia Bank	90+ day delinquent; transferred to special servicing 2/26/09.

Bonus Item No. 1: Note Auctions Prove Popular

In a first of its kind online commercial note auction event, in which several institutional special servicers, several banks and a major life insurance company took their first step toward clearing their balance sheets via an online commercial note auction marketplace, Jones Lang LaSalle and joint venture partner REDC held a successful auction of 47 primarily non-performing loans.

The $200 million February note auction was open to institutional and small investors via a transparent, online auction format that maximized the value of each individual asset, a notable advantage of this industry leading platform.

A full 100% of the notes auctions experienced a competitive bidding environment with anywhere from four to 20 active bidders aiming to secure each asset. The portfolio was sold at a gross price of $120 million, which represented 60% of the aggregate unpaid balances.

"When we set out to sell this portfolio of 47 non-performing notes collateralized by retail, office, industrial and multifamily properties, we felt that success would be met if we could create a vibrant marketplace where our sellers could maximize the value of their assets with realistic buyers willing to pay market-clearing prices," said Jeffrey Frieden, CEO of REDC. "That mission has been achieved. We sold 35 of the loans individually via competitive bidding to maximize the value achieved by our sellers."

On the first day of the event, 12 non-performing notes backed by multifamily properties in AZ, FL, GA, IL, MI, NY, OH, PA and TX were sold at the close of the auction. This portfolio had an outstanding principal balance of $83 million.

"There was a great deal of investor interest in our multifamily portfolio and all of the assets had a number of unique bidders in competition. All but two of our final buyers are local market or regional investors, which is proof positive that there are savvy non-institutional investors who recognize a loan to own opportunity and will step up and trade at equitable pricing levels that meet our sellers' thresholds," said Noble Carpenter, managing director of Jones Lang LaSalle's Real Estate Investment Banking team and leader of the firm's Loan Sales Advisory practice.

On the second day of the auction, Jones Lang LaSalle and REDC executed the immediate sale of 23 primarily non-performing notes backed by retail, office and industrial property in AL, AZ, CA, FL, GA, LA, MI, MO, NM, NY, OH, RI, TX and WA and the performing loan secured by a single tenant retail property.

This portfolio had an outstanding principal balance of $120 million.