

THE WATCH LIST

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CRE Whipsawed Up and Down In Face of Economic Uncertainty

Conflicted Sentiments Rule The Day As Stretch Run For 2012 Presidential Election Draws Nearer

By: [Randy Drummer](#)

This time last year, the CRE industry was mired in a summer funk, buzzing over the potential negative effects of the European debt crisis, the U.S. debt crisis and slower-than-expected economic growth following a series of strong year-end indicators fueled property demand growth that picked up speed through the beginning of the year.

The latest crop of national investors surveys and leading indicators released over the last few days shows that same confused sentiment has returned, less than three months ahead of another historic U.S. presidential election. Sifting through current and leading indicators and sentiment survey finds a similarly murky picture of conditions in U.S. commercial real estate property markets and capital conditions.

FIRST, THE GOOD NEWS

For the first time in what seems like an eon, the American Institute of Architects (AIA) has raised its outlook for construction spending in 2012 and through 2013, countering its previous forecast in January of slower growth in new construction.

A sharp spike in demand for industrial facilities this year, along with ongoing demand for hotels and retail projects, prompted the AIA to revise the 2.1% projected increase in the trade group's January Consensus Construction Forecast to a 4.4% rise in spending this year for all nonresidential construction projects.

The semi-annual forecast, a survey of the nation's leading construction forecasters, further projects a 6.2% increase in spending in 2013. Growth in commercial construction, including industrial facilities and warehouses, hotels, retail and office buildings, is expected to rise 5.7% this year and move into double-digit gains next year at 10.2%, according to the AIA.

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Another potential leading indicator of CRE market conditions and lending, the volume of initial environmental site assessment (ESA) activity, increased 13.4% over the same period a year ago, the largest jump in the past 15 months, according to a study by Environmental Data Resources Inc.

A first-phase ESAs is ordered when there is a serious intent to arrange financing for an acquisition or to recapitalize an asset, and such reporting is strongly correlated with real estate lending, according to Joseph P. Derhake, president of Partner Engineering and Science Inc., a leading environmental and engineering consulting firm. Increasing volumes of ESAs means more capital is flowing back into the market.

In 2011, a year in which the volume of commercial and multifamily originations increased according to the Mortgage Bankers Association, the number of Phase 1 ESAs increased 7% over 2010. ESA activity in second-quarter 2012 is up 8.4% over the previous quarter, with 104,617 ESAs ordered in the first half of the year.

"If the past is prologue, we should see a continuing increase in commercial and multifamily originations through the end of the year," Derhake said in the report.

THE NOT-SO-GOOD NEWS

However, there's plenty of disappointing news to offset promising future indicators, and even AIA Chief Economist Kermit Baker acknowledged concerns over the "fiscal cliff" involving the effects of federal tax and spending policy and its expected fallout on construction spending.

"We will likely have a better sense after the presidential election what will happen with regards to the Bush-era tax cuts, Social Security payroll tax, extended unemployment, and deficit reduction plans that will have a ripple effect that will extend to the construction industry," he said.

Taking a decided dimmer view, the Real Estate Roundtable released its Q3 Sentiment Survey, finding the outlook for CRE has again weakened and is not expected to improve much over the coming year except for pockets of strong activity and price appreciation in core "gateway markets," and the multifamily segment.

One quarter ago, an overwhelming 74% of survey participants judged current conditions to be at least somewhat better than a year earlier, but only 60% expressed such views in the latest survey. Looking ahead, the percentage of CRE executives who expect conditions to be better a year from today dropped from 69% to 58% between the second and third quarter.

Roundtable president and CEO Jeffrey DeBoer said the latest survey "underscores the fragility and unevenness of the commercial real estate recovery, which closely tracks the pace of the broader U.S. economic recovery and which remains limited to top-notch assets in major metro markets."

"Given the pervading sense of uncertainty hanging over the economy, the elections, looming budget and tax issues awaiting action on Capitol Hill, increasingly complex and overlapping regulatory burdens, and escalating worries about the eurozone, it's not surprising that commercial real estate executives' expectations for the year ahead are relatively lackluster."

The hints of cautious optimism that emerged in the January-February survey began to evaporate by mid-year, when the Federal Reserve downgraded its projections for U.S. economic growth after three consecutive months of disappointing jobs data.

"Commercial real estate continues to face pressure from underlying economic problems, along with an erosion of property values and equity throughout much of the country, and a massive amount of loans coming due," DeBoer said.

Separately, in Fannie Mae's latest housing survey out this week, Americans' confidence in the economy and their personal finances also continued to stall, though there were traces of a silver lining in respondents' outlook for improvement in the housing market. In the GSE's July 2012 National Housing Survey, respondents said they expect home prices to increase 1.7% in the next 12 months, down slightly from the survey high of 2.0% recorded in June.

"Not surprisingly, we see consumers' attitudes about their household finances remain cautious in this month's survey, and they continue to show signs of job worries and financial stress," said Doug Duncan, senior vice president and chief economist of Fannie Mae. "However, it is encouraging to see that consumer expectations regarding housing largely continue to be upbeat."

According to the survey, 11% of respondents -- the lowest level recorded since the survey began in June 2010 -- believe home prices will drop in the next year. Also, in the highest level seen since the survey's inception, 16% of consumers say it is a good time to sell.

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The Heat is on for Grocery-Anchored Retail

Expected Increase in Food Prices Could Prove Catastrophic Next Year for a Number of Grocery Chains

The historic drought ravaging America's farmland is likely to deliver another blow to grocery store-anchored shopping centers already losing sales to nontraditional retailers that have invaded their turf.

Since the late 1990s, nontraditional retailers have steadily increased their relative share of food-at-home sales, at the cost of traditional grocery stores, according to the U.S. Department of Agriculture. Most of the growth in food sales is now found in supercenters and warehouse club stores. More recently, dollar stores, such as Dollar General and Family Dollar, and drugstores, such as Rite Aid, CVS, and Walgreens, have all increased sales by expanding their in-store retail food offerings.

And it hasn't been getting better recently. The 3 million square feet of retail absorption in the second quarter of this year was the lowest since 2009, with neighborhood shopping centers feeling the sharpest pinch, according to Suzanne Mulvee, senior real estate strategist for CoStar Group.

Economic pressures on traditional grocery store anchors, which already operate on slender margins, are continuing to see rising price competition from big-box retailers benefitting from size and scale with suppliers such as Wal-Mart, Costco, Sam's Club and Target, Mulvee said this past week in CoStar Group's State of the U.S. Retail Market - Mid-Year 2012 Review & Forecast.

Total leasing volume for traditional grocery stores has slid 60% since 2007, according to CoStar data. (There is one bright spot for some grocery chains: Leasing for high-end, specialty and organic grocers is up 72% over that same time period.)

This year has delivered additional bad news though. Overall retail sales hit a disappointing stretch. Year-over-year increases in retail sales growth (excluding automobile sales) of around 6% in March dropped to around 3% in June, according to Mulvee. While recent reports from retailers suggest that the sales bleeding stopped in July, sales remain a concern in the fragile recovery due to factors such as the expiration of unemployment benefits and rising fuel prices, soon to be joined by the dry heat blast across much of the country.

The multiple heat waves that have slammed most of the United States this year are among the many factors that have been blamed for the last few months of retail sales, according to Garrick Brown, director of research for Terranomics and the ChainLinks Retail Advisors Group.

"But there is a bigger story brewing and that is the impact that the accompanying drought will have on the retail world by next year, Brown said in a recent Terranomics' Weekly Retail Newslines.

"Corn prices have already increased by roughly one third this year and nearly 90% of the U.S. crop has been affected by the ongoing drought. Since corn is so widely used; from corn syrup in sodas and other processed foods, to animal feed, the impact on food pricing next year is likely to be strong," Brown wrote. "Analysts are already projecting that beef prices will rise 5% next year, if not more. Milk and eggs are likely to increase at a rate just below that of beef."

So, what does this have to do with grocery store-anchored retail real estate?

"A strong rise in food prices could prove to be catastrophic next year for a number of grocery chains," Brown said. "Smaller, unionized shops have struggled in recent years against the rapid expansion of discount grocers and non-unionized players who have vastly increased their grocery presence, like Walmart and Target."

"A squeeze in grocery pricing will only further benefit the discounters, wholesalers/warehouse clubs and the large, non-unionized chains," Brown said, adding: "Look for the rate of grocery consolidation to pick up next year."

"And grocery stores won't be the only ones to feel the pinch. Casual dining chains will also be put between a rock and a hard place as they try to weigh how much of the additional food costs that they can pass on to consumers before they lose them to cheaper alternatives," Brown said.

The Beauty Factor: The Value of the Tenant's Well Being

Buildings That Make Us Feel Good Are Higher Performing

By: [ml Robles](#)

Last week in CoStar Group's *Beauty Is as Beauty Does* news article, the point was made that a correlation appears to exist between the occupancy and rent metrics of a building and its appearance – the better looking buildings appear to perform better. However, looks alone were not what is selling the building to tenants or investors. Although curb appeal can be a major factor in getting them in the door in the first place, you have to match it with functionality.

That correlation spurs additional questions perhaps more directly fundamental to building's performance and user experience: Can beauty be found in functionality? Are buildings that make you feel good also high performing buildings?

These are the questions that propelled a two-year research project recently completed by PatternMapping® institute and the University of Colorado Engineering Department (CEAE). The two groups developed a "Beauty in Building" (BiB) matrix to qualitatively measure the energy and environmental performance of beautiful buildings.

[Editor's Note: In this CoStar News-originated series, we continue to examine the topic of the psyche of Why We Work Where We Work.]

From that research, it appears that the Beauty Factor might in fact increase a building's performance, enhance the user experience, and increase economic benefits.

Beauty, in the study, was not defined aesthetically (as in the eye of the beholder) but experientially as a result of the user experience: beauty evokes a feeling of wellbeing.

NOT THE TOUCHY-FEELY BEAUTY

According to PatternMapping® institute and CEAE's recently released Beauty in Building white paper, in the study involving 27 certified LEED Platinum buildings and, within those 27 buildings, (including 12 AIA COTE Top 10 award winners), the award-winning certified high-performing buildings were four times more likely to gain green and regenerative points on the BiB matrix than non-award-winning certified high-performing buildings.

The key differentiator between award winners and non-award winners in gaining BiB environmental and energy performance points appears to be in the integration of building strategies.

When a building strategy does more than one thing, such as exterior glazing shading devices (think exterior louvers) that control sun while they maintain views and increase daylight, it creates an overall higher performing building that appeals to a users wellbeing.

Beautiful buildings, much like beauty in nature, maximize every strategy so there are no stand-alone components. It is the very opposite of the single attribute checklist approach.

The Top 5 building strategies that were identified in the study include exterior glazing shading devices, ventilation chimneys, overhead daylight, building orientation, and green roofs. This is hard-working beauty that runs deep through a building's systems.

These findings open the door for the value of wellbeing to be considered in the evaluation of building performance.

BEAUTY BRINGS HOME THE BACON

Buildings that make us feel good are higher performing, and, according to the U.S. Green Building Council's (USGBC) Business Case for LEED, perceived cost benefits of green building include the following:

- Operating costs decrease of 13.6% for new construction and 8.5% for existing buildings;
- Building value increases 10.9% for new construction and 6.8% for existing buildings;
- Occupancy increases 6.4% for new construction and 2.5% for existing buildings;
- Rent increases 6.1% for new construction and 1% for existing buildings.

The PatternMapping® institute and CEAE's results support previous work on functionality in buildings and the performance of users in those buildings.

According to a technical report done by the California Energy Commission, Windows and Classrooms, October 2003, "The visual environment is extremely important for learning; poor ventilation and indoor air quality are correlated with lower student performance."

According to the analysis by Innovative Design of Student Performance in Daylit Schools, "The students who attended daylit schools out performed (on CAT scores) the students who were attending non-daylit schools by 5%-14%."

According to the Daylighting initiative report, August 1999, Skylighting and Retail Sales, "These results show that adding skylighting to the average non-skylit store within the chain would be likely to improve its performance by 40%."

About the Author



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Mortgage Refis Are Golden for GGP

General Growth Properties Inc. (NYSE: GGP) has refinanced \$1.2 billion of property-level debt this summer, cutting its interest rate more than 1.6% in the process. What's more, the REIT is boasting that it netted some big payoffs from its financial moves.

The new loans have a weighted average interest rate and term of 5.15% and 10 years, respectively, as compared to a rate of 6.82% and a remaining term-to-maturity of 2.5 years. The transactions generated approximately \$224 million of net proceeds after repayment of existing mortgage notes.

"The mortgage markets continue to be an attractive source of capital for our properties and we have closed and expect to close with a range of life companies and CMBS dealers," Michael Berman, GGP CFO, told analysts this past week. "We continue to look to finance at loan-to-value ratio, generally in the 50% to 60% range."

"On a year-to-date basis, the company has completed approximately \$4.4 billion (\$4.1 billion at share) of property-level financings generating net proceeds of approximately \$527 million," Berman said. "As a result of these transactions, the average interest rate decreased 115 basis points from 5.64% to 4.49%."

The retail REIT is shooting to refinance \$5.3 billion in property debt this year.

Total loan spreads have widened a bit in the past few months, Berman said. Borrowing coupons for 10-year deals are generally less than 4.5%.

Most of the financing were 10-year maturities, with an average coupon of 4.2% and an average spread to treasury of less than 225 basis points.

"We're in the market with our last remaining 2012 maturing loans and are also preparing for another financing with a maturity date of early 2013," Berman said. "We anticipate achieving similar terms for what we have closed on so far. We will have generated sufficient proceeds to repay the \$350 million of unsecured Rouse bonds coming due in September."

"By the end of this year, we will have refinanced approximately \$5.3 billion of mortgages at share, taking the average rate from a little over 5.6% to an average rate of less than 4.5% on the refinanced mortgages," he said. "Approximately, \$1.8 billion for our 2012 maturities and the remainder were opportunistic financings."

"We expect to have generated approximately \$730 million in excess proceeds this year," he said.

Spending on Industrial Facilities Leads Resurgence in Capital Investments

Companies continue to show strong levels of investment in new and upgraded industrial facilities, according to the 2012 U.S. Investment Monitor (USIM) prepared by the Quantitative Economics and Statistics (QUEST) practice of Ernst & Young LLP.

This year's study shows that energy projects continue to attract significant investment, the automotive industry remains a strong source of new jobs, and the U.S. continues to be an important location for advanced manufacturing facilities.

The report analyzes major U.S. business investment projects in each state and focuses on mobile capital investments, defined as projects that are not tied to specific geographic markets, natural resources or other constraints. The 2012 USIM analyzed 5,000 business investments, which account for \$135 billion of capital investment in business facilities and more than 336,000 new and retained jobs announced in the U.S. in 2011.

Capital investments were highest in states with substantial energy sectors, primarily Louisiana, Texas and Pennsylvania. The Gulf and East Coast had the highest number of announced jobs, led by Texas, Pennsylvania and Ohio.

Six of the twenty largest capital investment projects were related to oil and gas extraction, processing, and refining. Three of the top 20 largest investment announcements in 2011 were semiconductor fabrication facilities.

"Companies, particularly those in growth industries like automotive, high tech and energy face the potential for a shortage of skilled labor in the U.S. in the coming years and this poses one of the biggest critical risk factors to their continued business growth unless addressed early," said Josh Herrenkohl, a principal and the East Coast leader of Ernst & Young LLP's Construction and Real Estate Advisory Services (CREAS) practice.

Manufacturing projects accounted for 60% of announced capital investment, and 56% of jobs. The average capital investment per announced job in 2011 was \$405,000 compared to \$213,000 in 2010. This level of investment is similar to 2008 and 2009, which was another period of large energy projects and other capital intensive facilities.

Six of the top 20 largest job announcement projects were in the automotive industry. Overall, the semiconductor and electronic component manufacturing industry announced over 28,000 jobs in 2011, including six projects with 1,000 or more jobs each.

"As the economy continues to expand within a few key sectors, companies in those sectors need to carefully manage the risks associated with the very large capital investment / construction programs needed to support such growth. Large scale construction of advanced manufacturing facilities, power plants and utility infrastructure is an area in which companies can see huge cost overruns mount extremely quickly if they are not careful," said Mark Gibson, a partner and West Coast leader of Ernst & Young LLP's CREAS practice.

Top states for mobile capital investment:

- Louisiana: \$20.9 billion
- Pennsylvania: \$12.5 billion
- Texas: \$10.1 billion

Top states ranked by new and retained mobile project jobs:

- Texas: 30,100
- Pennsylvania: 27,100
- Ohio: 26,200

Re-Shoring: More Manufacturing Expected To Return to the U.S.

The "on-shoring" of jobs to the U.S. and other western developed countries will continue strongly through the year 2020, according to CoreNet Global, an association of corporate real estate executives.

In a survey conducted in conjunction with the Corporate Real Estate 2020 (CRE 2020) research, 51% of corporate real estate asset managers either agreed or strongly agreed that there would be a rebound in domestic manufacturing from offshore locations. This recovery will be driven both by companies bringing manufacturing plants and jobs back to the U.S. or choosing not to off-shore in the first place, according to the report.

"On-shoring in the U.S. will continue to gain steam due to changing global cost and supply chain dynamics," said Dennis Donovan, principal with WDG Consulting, a national expert on site location decision-making. "The U.S. and its manufacturing base are more competitive than at any time in a generation."

U.S. manufacturing jobs have rebounded from a 10-year low of 11.46 million in January 2010 to a projected 11.96 million ending June 2012, according to the U.S. Bureau of Labor Statistics (BLS). The 4.4% increase marks a gain of more than a half million new jobs.

"The labor cost arbitrage will likely diminish as a primary strategic driver as urbanization and industrialization trends in developing nations run their course" (resulting in increased labor costs,) said Chris Horblit, president of Fidelity Real Estate Co. "This, combined with ongoing security and quality concerns, as well as rising costs to transport goods and people, may well spark a marked turn to (on-shoring) by 2020."

Examples of manufacturing returning to the U.S. abound, according the CRE 2020 report:

- The Coleman Co. is moving production of its 16-quart wheeled plastic cooler from China to Wichita, KS.
- Sleek Audio has moved production of its high-end headphones from Chinese suppliers to its plant in Manatee County, FL.
- Peerless Industries will consolidate all manufacturing of audio-visual mounting systems in Illinois, moving that work from China.

One factor that has enabled this re-shoring phenomenon is companies that are relying more on technology and automated production processes to reduce labor content and boost productivity.

Another key driver is the fact that both transportation and labor costs associated with offshoring are rising and chipping away at the cost advantage associated with offshoring facilities.

The rise in Chinese labor costs could be a further boon for U.S.-based manufacturing. Labor costs have been rising dramatically in China - a major competitor for U.S. manufacturing operations. For example, Southern China is at the point where it is at 20% of U.S. labor costs.

An additional factor is that manufacturing at home avoids a growing problem for major corporations operating in China and other developing markets - the lack of protection of intellectual property. Top executives from companies including GE, Microsoft, Kawasaki Heavy Industries, BASF and Siemens are among those firms that have criticized China for not safeguarding foreign companies' proprietary information, a failure they say has cost their companies billions of dollars.

Why Do Life Insurers Love Commercial Mortgages?

Let Us Count the Ways

Insurance companies, which hold nearly half of the total commercial real estate mortgage exposure with \$150 billion in combined commercial mortgage assets, saw realized losses from their commercial mortgage holdings retreat to a level of just six basis points, with no companies reporting realized losses greater than of 1%, according to a survey by CRE Finance Council (CREFC) and Trepp LLC on commercial mortgage investment performance.

The survey of participating companies covered commercial mortgage data for Jan. 1 to Dec. 31, 2011, including any sub-performing or non-performing loans in subsidiary entities.

According to CREFC, the results indicate that U.S. insurance companies continue to achieve superior investment performance through their allocations to commercial mortgages.

Other key data points from the survey (all as of year-end 2011) include the following.

- Realized losses were contained primarily in first mortgage investments at 83.24% of all company losses reported. Minor losses were reported from investment in higher yielding subordinated debt instruments (14.10% of all losses) and construction loans (2.66% of all losses) where much lower levels of exposure are held.
- Loss Severities Experienced: The severity of realized losses for insurance companies (when a loss was recorded in 2011) averaged only 9.19% of the par balance for first mortgage investments. The underlying quality of the real estate in insurance company portfolios helped to mitigate the financial impact of troubled loans.

- **Losses by Property Type:** The office property type accounted for 31.61% of all realized losses from participating companies followed by multi-family at 23.43%, retail at 11.04%, industrial at 21.93% and hotels at 2.34%.
- **Loss Severities by Property Type:** There was an extremely tight range of average realized loss severities for the four core property types when a loss was recorded. Severities ranged from a high of 12.87% for multifamily to a low of 8.54% for office. Retail loss severities were recorded at 9.71% and industrial at 12.57%.
- **Actions Taken On Problem Loans:** For the realized losses that were recorded, 17.16% were generated from distressed note sales, 15.61% from foreclosures, 21.18% from discounted payoffs and 31.74% from either write-down(s) or restructures.
- **Delinquencies:** Total loan delinquencies (30 days or greater) recorded by participating companies within their general account holdings and subsidiary entities averaged 0.43%.

"These results provide clear evidence of extremely solid investment performance within insurance company portfolios," according to Todd Everett, managing director and head of real estate fixed income at Principal Real Estate Investors and chair of CREFC's Portfolio Lenders Insurance Company Sub-Forum. "They also demonstrate the reasons we are seeing increasing allocations in commercial mortgages from this sector. The lowering level of losses and minor levels of high risk seem to indicate that insurance companies are benefitting from the recovery in real estate fundamentals."

Maturing U.S. CMBS Loans in for Challenging 12 Months

The next 12 months will be trying for U.S. CMBS with \$24 billion in loans set to mature, according to Fitch Ratings.

Of the nearly 1,900 fixed-rate conduit CMBS loans due to mature, 41% (59% by balance) would be unable to refinance under Fitch's defined stressed refinance parameters. Under Fitch Ratings' fixed-rate CMBS surveillance methodology, a loan with a debt service coverage ratio (DSCR) less than 1.25x would be considered unable to refinance and would default at maturity. This DSCR calculation assumes a refinance interest rate of 8% and a 30-year amortization schedule.

Not surprisingly, most of the pressure will fall on what many consider the most problematic vintage. Many loans originated in 2007 were underwritten to pro forma income and have faced significant declines in value. As such, these loans will face a particularly difficult refinance challenge. Fitch concludes that 80% (83% by balance) of all 2007 vintage loans that mature in the next 12 months would be unable to refinance.

Though fewer in number, the loans that mature in the upcoming year from the 2005 and 2006 vintages are also likely to face difficulty. Fitch Ratings finds that 57% (68% by balance) of loans originated in 2005 and 69% (81% by balance) of loans originated in 2006 would be unable to refinance under the stressed parameters.

Conversely, only 27% (23% by balance) for the seasoned 10-year loans originated in 2002 would be in danger of defaulting at maturity.

The results are as anticipated by property type with hotels having the highest potential defaults. The percent of upcoming maturing loans predicted to default at maturity, by number and by balance, are as follows.

- Hotel: 60% (by number), 78% (by balance)
- Office: 50%, 64%
- Multifamily: 49%, 73%
- Retail: 32%, 44%

Although retail currently demonstrates better performance amongst the property types, Fitch Ratings said it remained cautious of retail loan performance due to risks of tenant lease rollovers, recent store closures and big box tenant exposures, as well as the gap between current rents and those underwritten at the peak of the market.

Similar concerns apply to the office property type. Not surprisingly, the failure rate for Fitch Ratings' refinance test for office loans in primary MSAs is significantly lower than that for loans in secondary or tertiary markets (28%, compared to 68%).

The majority of the multifamily potential maturity defaults are backed by properties in troubled or overbuilt states, such as Texas, Florida, Ohio, Michigan, and Nevada.

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Ex Morgan Stanley Housing Exec Targeting \$1 Bil. in Home Purchases

A new player called Sylvan Road Capital LLC has jumped into the \$3 trillion single-family rental market in a big way.

The Atlanta-based asset management firm founded by Oliver Chang, Robert Lee, Sarah Lee, and Gavin Kleinknecht, expects to invest more \$1 billion nationally in the next two years, beginning with an initial capital commitment from a leading private equity firm to acquire over \$300 million in single-family homes.

Chang is the former Head of U.S. Housing Strategy at Morgan Stanley, and his partners are the principals of Atlanta-based Delmar Realty Advisors.

"America is moving toward a 'rentership society,' and I believe the opportunity to purchase and professionally manage single-family rental homes represents one of the most compelling investment opportunities across all asset classes," said Chang, co-founder and managing director.

Sylvan Road focuses on buying and extensively renovating highly distressed single-family properties.

Watch List: 9 Apt Complexes Go into Special Servicing; 2 Westins Emerge from Bankruptcy

Information for these listings was provided by Trepp LLC, an industry leader in providing surveillance data on loan and commercial real estate performance underlying the CMBS market and CoStar Group.

Property Name	Address	Property Type	Current Balance	CMBS Deal Name; Special Servicer	Comments
315 Park Avenue South	315 Park Ave. South, New York, NY	Office	\$219,000,000	JPM 2007-LDP11; CWC Capital Asset Management	Loan transferred to special servicing effective 4/2/12 for imminent maturity default. The loan matured 6/9/2012 and the borrower is unable to obtain sufficient takeout financing.
Fontana Village Townhomes	1 Orion Court, Rosedale, MD	Multifamily	\$200,000,000; \$140,000,000	GCC 2005-GG5; GS 2006-GG6; LNR Partners	Borrower is requesting a short term extension of the maturity (7/6/2012) to allow time for refinancing to close.
Cove Village Apartments	2 Driftwood Court, Essex, MD	Multifamily	see above	see above	see above
Hamilton Manor	3340 Lancer Drive, Hyattsville, MD	Multifamily	see above	see above	see above
Whispering Woods Townhomes	37 Alberge Lane, Baltimore, MD	Multifamily	see above	see above	see above
Highland Village Townhomes	3953 McDowell Lane, Baltimore, MD	Multifamily	see above	see above	see above
Riverview Townhomes	600 Fifth Ave., Baltimore, MD	Multifamily	see above	see above	see above
Harbor Point Estates	909 S. Marlyn Ave., Essex, MD	Multifamily	see above	see above	see above
Commons at White Marsh Apartments	9901 Langs Road, Middle River, MD	Multifamily	see above	see above	see above
Dutch Village Townhomes	2349 Perring Manor Road, Baltimore, MD	Multifamily	see above	see above	see above
Hyatt Regency-Bethesda	7400 Wisconsin Ave. (One Bethesda Metro Center), Bethesda, MD	Lodging	\$140,000,000	GCC 2005-GG5; LNR Partners	Lender moving forward with the foreclosure in mid August 2012.
The Westin - La Paloma	3800 E. Sunrise Drive, Tucson, AZ	Lodging	\$105,000,000; \$104,000,000	JPM 2007-C1; JPM 2008-C2; LNR Partners	Borrower filed for Chap. 11 bankruptcy protection in November 2010 and won court approval this week to emerge from bankruptcy.
The Westin - Hilton Head	2 Grasslawn Ave., Hilton Head, SC	Lodging	see above	see above	see above

CRE Loan Prices Continue Upward Climb

The aggregate value of Commercial Real Estate (CRE) loans priced by DebtX that collateralize CMBS increased to 88.4% as of June 30, 2012 from 88.2% as of May 31, 2012. Loan values were 84.9% as of June 30, 2011.

"Commercial real estate loan prices rose for a seventh straight month in June and have continued the upward trend of the past 15 months," said DebtX CEO Kingsley Greenland. "Rising prices have prompted a growing number of sellers to take advantage of liquidity in the marketplace. It remains a good time to sell due to strong investor demand."

In June, DebtX priced 54,946 CRE loans with a \$766.1 billion aggregate principal balance.

Goods or Services?

By: [Vlad Gotlib](#)

When we think of retail stores, the first things that come to mind are clothes, groceries, appliances—physical items we can pick up and put in the car. But there is another type of tenant competing for retail space—service providers, such as beauty salons, tax preparation services, and tae kwon do dojos.

With over two-thirds of personal consumption expenditures going toward services, it should not be surprising to see many service providers occupying space in strip malls and shopping centers.

An interesting trend has been developing over the past few years: It looks as if service-based storefronts are leasing more space compared to all retailers (Exhibit 1).

However, the number of service-oriented leases compared to those taken by all retailers has been relatively steady.

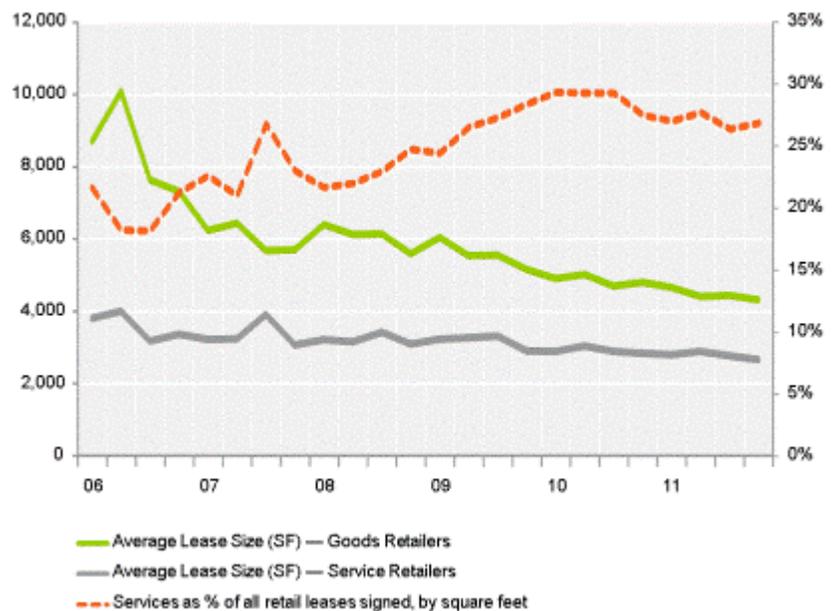
What does it mean when the ratio comparing the square footage of services retailers to all retailers rises but the ratio of the counts stays the same? The answer has to do with the size of the average store.

Service-oriented stores are averaging just over 3,100 SF per lease, a figure that has not changed dramatically over the past five years.

Over the same period, the size of the average goods-based store has been steadily dropping, from around 8,000 SF to just under 4,000 SF. The physical goods retailers are able to (or rather, being forced to) make do with less space.

The growth of service-based leases is less a function of services dominating goods retailers than of the slimming down of the average goods retailer. Goods retailers taking less space is part of the reason why retail absorption is light despite the rebound in consumer spending. This trend will likely continue as retailers get better at using existing space efficiently.

EXHIBIT 1: AVERAGE SF LEASED GOODS VS. SERVICES



Capmark Bank Now an All-Cash Bank

Capmark Financial Group Inc. received a distribution of \$1.55 billion of assets from Capmark Bank, its wholly-owned Utah industrial bank. The distribution consisted of commercial real estate loans, commercial real estate properties and related assets with an aggregate net fair value of \$1.33 billion and \$220 million of cash.

After giving effect to the distribution, Capmark Bank had stockholders' equity of \$400 million and its remaining assets consisted primarily of cash.

The Federal Deposit Insurance Corp. and the Utah Department of Financial Institutions expressed no objection to the distribution.

Tandem Paying a Hefty 13% for Health Care Facilities Mezz Loan

HCP closed a mezzanine loan facility to lend up to \$205 million to Tandem Health Care, an Orlando area-based affiliate of Formation Capital, as part of the recapitalization of a post-acute/skilled nursing portfolio.

HCP funded \$100 million at closing and expects to fund an additional \$105 million between March 2013 and August 2013. The second tranche will be used to repay debt senior to HCP's loan.

The loan is subordinate to \$400 million in senior mortgage debt and \$137 million in senior mezzanine debt. The loan bears interest at a fixed rate of 12% and 14% per annum for the first and second tranche, respectively. Including fees received at closing, the loan has a blended yield to maturity of 13%. The facility will have a total term of up to 63 months from the initial closing.

The Tandem portfolio is comprised of 68 post-acute/skilled nursing facilities primarily in Florida, Ohio, Pennsylvania and Virginia. The facilities are in either Certificate of Need states or states that have placed restrictions on new post-acute/skilled nursing construction. The portfolio has an occupancy rate of 93%, a quality mix of 52%, a net operating income margin of 17% and in-place rent coverage of 1.3x. The portfolio is master leased to LaVie Care Centers, an operator of 208 post-acute/skilled nursing facilities in the United States.

JEMB Makes Play for Daffy's Real Estate

An affiliate of JEMB Realty Corp. has made a play to gain control over bankrupt trendy apparel retailer Daffy's former stores.

The JEMB affiliate agreed to purchase Daffy's Inc.'s 19 leasehold interests, certain real estate fixtures and certain intellectual property for \$43 million.

In addition, a separate affiliate of JEMB Realty agreed to purchase three real estate properties from Daffy's for \$40 million.

Discount apparel, accessories, and home goods retailer Daffy's filed a voluntary reorganization under chapter 11 of the Bankruptcy Code in the Southern District of New York on Aug. 1.

Daffy's operations during the last 50 years have generally been profitable. In 2011, however, as a result of the continued economic downturn and increased competition in the discount fashion market - including an increase in online discount retailers - Daffy's suffered a net operating loss of \$11.4 million. It has continued losing money since then.

"JEMB Realty Corporation is looking forward to capitalizing on its long-term experience and knowledge in the greater New York area and to have the opportunity to work with Daffy's with respect to the orderly wind up of Daffy's operations and to provide payment in full to all of Daffy's creditors," said Morris Bailey, CEO of JEMB Realty.

Daffy's operates 19 stores in New York, New Jersey, and Pennsylvania, as well as a distribution and storage facility in Secaucus, NJ. Nine of the Debtor's stores are in New York City, eight of the stores are in high-traffic suburban retail centers in New York and New Jersey, one store is in Philadelphia, Pennsylvania, and one store is at the Debtor's facility in Secaucus.

One of its most valuable leases is its lease of a 97,124-square-foot store in New York City's Herald Square with a current rent that is substantially below market.

Apartment Trust of America Buys 21 Apartment Communities; Recapitalizes, Renames Firm

Apartment Trust of America Inc. has completed a recapitalization transaction that includes the contribution of a portfolio of 21 apartment communities with 6,100 units, (valued at \$485 million) in exchange for \$187 million of

partnership interests in ATA's operation partnership, \$16 million in cash and the assumption of \$282 million in debt on the properties.

In doing so, the Richmond, VA-based company is changing its name to Landmark Apartment Trust of America.

The properties are being contributed by Israel-based Elco Landmark Residential Holdings LLC (ELRH) and its affiliates and partners, DeBartolo Development LLC, the Florida Value Funds and other investors.

Of the 21 contributed properties, 20 are being contributed pursuant to a master contribution agreement, and one, known as the Andros Isles property, is being contributed by DeBartolo pursuant to a separate standalone agreement for a negotiated price of \$49 million.

At the completion of the transactions, Landmark Apartment Trust of America will own a total of 36 properties, containing 10,000 units, in 17 growing markets across the Southern U.S. In addition, it continues to provide fee-management services for approximately 12,000 units not owned by the company.

The company also established two classes of cumulative redeemable preferred stock, and sold for cash \$50 million of the preferred stock to OPSEU Pension Trust, a Canadian pension fund, and DeBartolo together with warrants to purchase an equivalent amount of ATA common stock.

Behringer Harvard, Prospect Capital Launch Alternative Investment Programs

Behringer Harvard Holdings LLC and Prospect Capital Management LLC launched a joint venture targeting the development, management, and distribution of alternative investment programs.

The programs sponsored by Behringer Harvard and Prospect Capital will focus on high-yielding debt and equity opportunities.

Behringer Harvard will lead capital-raising for such alternative investment programs. Prospect Capital will lead the investment strategy.

"This joint venture is an important part of Behringer Harvard's strategic initiatives to offer a broader range of industry-leading alternative investment opportunities that go beyond our core competencies in commercial real estate," said Frank Muller, executive vice president of Behringer Harvard.
