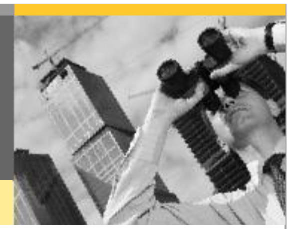
THE WATCH LIST



MARK HESCHMEYER, EDITOR | SEPT. 24, 2009 | WWW.COSTAR.COM

A WEEKLY COLUMN FOCUSING ON DISTRESSED MARKET CONDITIONS, COMMERCIAL REAL ESTATE PROPERTIES, MORTGAGES AND CORPORATIONS PUBLISHED BY COSTAR NEWS

IN THIS WEEK'S ISSUE:

Recession Levies Hefty Punishment on CRE

Number of Distressed Properties, Delinquent Loans Up About 50% This Year

Wounded assets continue piling up as the recession (waning though it seems to be) goes on punishing commercial real estate properties that are now seriously overvalued and overleveraged. In this statistical state-by-state look at the damage, CoStar Group has identified more than 80,000 distressed office, industrial and shopping center properties and tallied more than $79 billion in seriously delinquent CRE loans and another $6.3 billion in foreclosed bank-held CRE properties.

How bad the year has been for commercial real estate is evident in comparing the current levels of distress with analysis CoStar did at the start of the year. In January, CoStar tallied specially serviced CMBS loans totaling $8.2 billion. In this go around, that amount is now up to $46.9 billion. CMBS loans in special servicing consists of loans that are either delinquent in loan repayments or had reached maturity without pay off or were current but had issues concerning ongoing credit problems with either tenants or borrowers.

At the first of March, CoStar tallied the number of distressed office buildings in the country and found more than 19,600, using its CoStar Analytic service. This go around, we identified more 31,000 -- a more than 50% increase. For the purposes of this analysis, CoStar tallied buildings that were 60% vacant or more.

Property values have plummeted throughout the recession and have continued to fall this year. The prices of properties sold are down in a range from 15% to 35% since just before the onset of the recession. The average price of office buildings sold in 2007 was nearly $219/square foot; this year it has averaged about $142/square foot, CoStar Analytics data shows. Sold retail properties have fallen in sale price from about $178/square foot in 2007 to about $132/square foot now. Sold industrial/flex properties have fallen in sale price from about $61.50/square foot in 2007 to about $52/square foot now.

As companies have gone out of business or been forced to cut costs significantly, the demand for space has evaporated. In the first half of 2007, office building net absorption nationally was 41.8 million square feet; in the first half of this year, tenants have given back 40.9 million square feet of space to landlords. The numbers are even worse for industrial/flex space. In the first half of 2007, tenants took on an additional 94.1 million square feet of space nationally; in the first half of this year, they have given back 97.5 million square feet.

The complete reversal in absorption has lead to rapid pile up of the number of buildings that are now more than 60% vacant. That has prompted net operating incomes to plummet and lead to a huge increase in the amount of delinquent loan repayments.

State	No. of Distressed Office Buildings in CoStar Database	No. of Distressed Industrial Buildings in CoStar Database	No. of Distressed Shopping Centers in CoStar Database	Total
Totals	**31,355**	**39,682**	**9,697**	**80,734**
California	3,266	5,681	1,292	10,239
Florida	3,469	3,576	715	7,760
Texas	1,885	2,682	1,030	5,597
Michigan	1,394	2,327	357	4,078
Georgia	1,542	1,667	412	3,621
Ohio	1,464	1,759	392	3,615
Illinois	1,029	1,819	377	3,225
North Carolina	1,139	1,553	335	3,027
Pennsylvania	1,216	1,391	204	2,811
Arizona	1,143	1,251	406	2,800
New York	1,023	1,087	218	2,328
New Jersey	928	1,151	117	2,196
South Carolina	841	778	264	1,883
Indiana	714	898	222	1,834
Virginia	739	821	215	1,775
Tennessee	655	871	208	1,734
Colorado	581	648	234	1,463
Missouri	555	671	216	1,442
Washington	615	580	209	1,404
Massachusetts	506	742	76	1,324
Nevada	485	543	273	1,301
Maryland / Washington, DC	635	539	101	1,275
Alabama	499	616	127	1,242
Wisconsin	334	626	168	1,128
Oregon	408	498	88	994
Louisiana	351	423	117	891
Minnesota	316	441	121	878
Connecticut	395	415	66	876
Kentucky	303	432	105	840
Oklahoma	274	385	120	779
Kansas	241	318	120	679
New Mexico	299	211	77	587
Idaho	280	202	90	572
Utah	203	264	102	569
Arkansas	224	240	94	558
Mississippi	229	200	84	513
Nebraska	113	328	51	492
Iowa	156	202	68	426
West Virginia	149	95	64	308
Delaware	133	114	24	271
Rhode Island	119	132	18	269

New Hampshire	124	122	23	269
Maine	135	106	24	265
Montana	67	71	16	154
South Dakota	43	44	9	96
Hawaii	24	50	10	84
North Dakota	33	38	10	81
Vermont	39	27	9	75
Alaska	26	25	14	65
Wyoming	14	22	5	41

In compiling delinquency and foreclosure dollar figures, CoStar relied on reports from bond rating agencies, CMBS monthly bondholder reports and bank balance sheet data reported to the Federal Deposit Insurance Corp.

Specially serviced CMBS loan delinquencies are far outpacing the dollar volume of commercial income producing property loans on bank books. There was more than $46.8 billion in CMBS loans in the 50 states in special servicing at the end of July. That compares to slightly more than $32.2 billion in nonaccrual loans identified by banks in the 50 states. Bank loans listed in nonaccrual status are more than 90 days delinquent but have not yet been charged off by the banks.

Multifamily loans listed by banks as nonaccrual increased in the second quarter to $6 billion, up from about a $3.5 billion at the start of the year. In addition, the amount of foreclosed multifamily properties now held by U.S. financial institutions increased to $1.58 billion, up from about $1.2 billion at the start of the year.

Problem income-producing commercial property loans continued to climb as well. Loans in nonaccrual status held by banks increased to $26.2 billion in the 50 states, up from about $17 billion at the start of the year. The current figure bank delinquency figure represents about 2.88% of all loans for income-producing commercial property outstanding ($1.09 trillion). The CMBS delinquency rate is closer to 3.2% of outstanding CMBS-held loans.

State	Apprx. Specially Serviced CMBS Loan Balance	Bank-Held Multifam REO 6/30/2009	Bank-Held Comm. REO 6/30/2009	Bank-Held Nonaccrual Multifam Loans 6/30/2009	Bank-Held Nonaccrual Comm. Loans 6/30/2009
Totals	$46,898,642,251	$1,575,730,000	$4,779,501,000	$6,016,300,000	$26,225,463,000
California	$6,211,707,291	$140,151,000	$263,210,000	$526,661,000	$2,128,654,000
Texas	$4,217,167,791	$35,140,000	$256,399,000	$118,473,000	$591,251,000
Florida	$3,827,888,952	$69,804,000	$206,859,000	$527,763,000	$1,235,618,000
New York	$3,596,450,495	$24,875,000	$66,847,000	$434,046,000	$932,932,000
Hawaii	$2,701,599,307	$0	$0	$0	$18,442,000
Michigan	$2,505,189,996	$16,033,000	$177,935,000	$154,670,000	$1,155,395,000
Arizona	$2,290,636,012	$597,000	$34,973,000	$13,511,000	$109,430,000
Georgia	$1,988,107,394	$46,148,000	$334,994,000	$95,800,000	$769,397,000
Nevada	$1,716,717,097	$18,488,000	$53,628,000	$186,162,000	$325,931,000
Illinois	$1,458,353,045	$510,914,000	$347,982,000	$691,531,000	$1,581,776,000
New Jersey	$1,396,768,447	$14,172,000	$38,341,000	$94,989,000	$316,010,000
Ohio	$1,341,095,701	$113,600,000	$231,671,000	$1,063,404,000	$2,460,087,000
Maryland / Washington, DC	$1,309,505,284	$3,791,000	$21,925,000	$31,849,000	$140,993,000
Connecticut	$1,021,433,456	$0	$16,723,000	$8,847,000	$126,350,000
Pennsylvania	$997,020,583	$5,915,000	$140,200,000	$295,948,000	$1,284,715,000

Colorado	$973,046,297	$7,661,000	$59,627,000	$5,319,000	$196,561,000
Massachusetts	$785,460,416	$18,700,000	$33,298,000	$18,729,000	$264,526,000
Virginia	$739,430,904	$18,578,000	$55,421,000	$47,787,000	$560,363,000
Indiana	$714,525,277	$11,083,000	$73,738,000	$63,116,000	$317,283,000
North Carolina	$665,044,148	$233,660,000	$508,201,000	$285,195,000	$3,864,394,000
Louisiana	$623,011,459	$3,852,000	$35,736,000	$34,578,000	$155,461,000
Washington	$589,972,668	$2,601,000	$48,224,000	$48,431,000	$336,883,000
Minnesota	$576,889,627	$16,480,000	$221,988,000	$16,842,000	$401,375,000
Rhode Island	$478,080,348	$0	$4,246,000	$81,735,000	$343,185,000
Kentucky	$477,681,330	$3,107,000	$49,719,000	$22,468,000	$144,437,000
Missouri	$468,241,014	$30,865,000	$153,519,000	$44,185,000	$347,796,000
Tennessee	$462,209,244	$18,487,000	$117,637,000	$39,456,000	$237,941,000
Utah	$408,886,351	$3,712,000	$130,356,000	$97,310,000	$660,661,000
South Carolina	$293,142,105	$2,036,000	$56,383,000	$44,470,000	$280,083,000
Alabama	$288,758,138	$43,870,000	$201,664,000	$385,106,000	$1,138,902,000
New Mexico	$230,843,759	$504,000	$14,154,000	$26,063,000	$60,186,000
Iowa	$226,488,376	$16,584,000	$90,189,000	$16,686,000	$174,144,000
Oklahoma	$193,933,372	$12,576,000	$87,611,000	$23,156,000	$234,768,000
Maine	$176,928,720	$1,004,000	$13,449,000	$4,816,000	$82,172,000
Oregon	$134,591,273	$2,538,000	$30,793,000	$9,488,000	$139,397,000
Idaho	$124,802,627	$0	$11,420,000	$243,000	$12,964,000
Kansas	$124,610,614	$7,498,000	$49,194,000	$32,491,000	$177,624,000
Wisconsin	$118,617,114	$56,440,000	$149,314,000	$240,891,000	$956,652,000
Delaware	$92,163,034	$20,536,000	$54,806,000	$14,582,000	$368,326,000
Nebraska	$91,581,548	$1,353,000	$42,082,000	$11,557,000	$100,914,000
Mississippi	$80,329,805	$8,596,000	$56,059,000	$7,534,000	$100,373,000
New Hampshire	$51,598,104	$0	$12,025,000	$1,575,000	$25,792,000
Vermont	$47,776,711	$0	$3,352,000	$763,000	$15,806,000
Arkansas	$37,982,472	$13,573,000	$65,773,000	$40,533,000	$155,043,000
West Virginia	$21,969,578	$250,000	$16,538,000	$10,874,000	$87,754,000
Montana	$7,425,775	$313,000	$14,595,000	$3,014,000	$61,666,000
Alaska	$5,363,702	$0	$1,566,000	$2,958,000	$23,665,000
North Dakota	$4,254,659	$7,031,000	$12,091,000	$6,251,000	$30,468,000
South Dakota	$2,429,736	$11,704,000	$109,694,000	$80,002,000	$974,850,000
Wyoming	$931,092	$910,000	$3,352,000	$4,442,000	$16,067,000

New IRS Rules May Help Stave Off CMBS Defaults

By: Randyl Drummer

The Internal Revenue Service last week issued eagerly awaited new guidelines that allow certain commercial mortgage borrowers to modify and renegotiate their loans without triggering tax penalties. The new rules allow servicers to modify or restructure the loans even if the borrower is facing default.

Under the new rules in Revenue Procedure 2009-45 issued by the IRS and the Treasury last week, special servicers can reduce the interest rate of securitized loans pooled in real estate mortgage investment conduits (REMICs), or extend the term at any time. That allows at-risk borrowers with potentially distressed loans to ask for help earlier in the game. Previously, tax rules made it tough for borrowers who are up to date on their payments to conduct loan restructuring or modification talks with bond servicers. Only those in default or imminent threat of default could initiate talks.

The new tax rule, along with $1.4 billion in new loan requests for legacy CMBS under the Term Asset-Backed Securities Loan Facility (TALF), helped fuel a rally by CMBS last week, with spreads tightening about 5 basis points.

Real Estate Roundtable President and CEO Jeffrey D. DeBoer welcomed the changes, asserting that the IRS has taken "a very positive step toward easing today’s crushing liquidity crisis in commercial real estate."

"Amidst a massive wave of maturing commercial real estate debt, and still virtually no credit available for refinancing, borrowers need to be able to talk with their loan servicers about restructurings in a timely manner, before the point of default," DeBoer said.

The IRS decision expands the definition of imminent default and the time frame that borrower and servicers can negotiate, said Eric Gunderson of Highland Advisor Partners, a guest speaker at a client webcast by Marcus & Millichap on "Solutions for Maturing Loans and Underperforming Properties" last week.

It's going to greatly increase the odds that the master can transfer to the special and also modify the loans," Gunderson said.

However, some analysts argue that are limits to how much the tax law changes can help. Banc of America Securities Merrill Lynch said in a commentary last week that the new guidelines won't help "loans that are deep underwater, and there are many of these."

Tino Korologos, distressed debt leader for Deloitte, argues that the changes are "potentially only a variation of the 'pretend and extend' position the industry has taken so far because values still have a long way to go."

"It doesn't address the problem of who will provide liquidity. It also could anger a lot of the senior investors, the AAA buyers, who will be the liquidity providers of CMBS 2.0 in the future," Korologos said.

Michael J. Rufkahr, an attorney in the Washington, DC, office of Dechert LLP, wrote in a report to clients that "he rose from the IRS may have thorns."

The new regulations impose a requirement that the collateral value for a mortgage loan be retested. Thus, Rufkahr wrote, a modification that alters a substantial amount of the collateral or that changes the nature of the loan either way between recourse and nonrecourse can only go forward if the loan-to-value ratio holds up. Thus, all collateral supporting a loan will have to be revalued and must remain sufficient to support the modified value of the loan.

Sunstone Stops Debt Payments on 3 Hotels; Renegotiating Other Debt

Sunstone Hotel Investors Inc. in San Clemente, CA, said it has quit making debt service payments associated with three of its hotels: the 256-room W San Diego Hotel, the 293-room Marriott Ontario (CA) Airport and the 341-room Renaissance Westchester (NY).

At this time, the company is working with the lenders to facilitate deed-backs of the W San Diego Hotel and the Marriott Ontario Airport. The company is currently in negotiations with the special servicer of the Renaissance Westchester loan.

The company has also agreed in principle to terms of an amendment for a $105.4 million CMBS mortgage loan secured by the 622-room Renaissance Baltimore Hotel. The amendment will eliminate amortization on the debt for up to 30 months.

In addition, the company is in discussions with lender's representatives on several other mortgage loans, none of which are in default currently.

"We continue to proactively manage our secured debt portfolio to further enhance our credit profile," said Ken Cruse, CFO of Sunstone. "We are proceeding with deed-backs of two assets where the loan amounts meaningfully exceed the value of the collateral assets."

Blackstone-Emeritus To Acquire Sunwest Portfolio

Blackstone Real Estate Advisors agreed on the terms of the purchase of up to 148 senior living properties controlled and managed by Sunwest Management, an Oregon-based senior living provider.

Blackstone is partnering with Emeritus Senior Living, one of the nation's largest senior living providers managing 309 communities in 36 states, and Columbia Pacific Management Inc., an entity controlled by Dan Baty, chairman and Co-CEO of Emeritus. Under the terms of the proposal, Emeritus would be appointed as manager of the newly acquired facilities once the transaction is complete. Emeritus will also have the option to invest up to 10% of the equity in the joint venture entity along with Blackstone and Columbia Pacific.

Under the preliminary agreement, Sunwest would proceed with the plan of distribution currently pending before the U.S. District Court in Eugene, OR, in the lawsuit filed last March by the U.S. Securities and Exchange Commission (SEC). The court will consider the receivership plan at the end of this month. If it approves that plan, the court would subsequently consider the Blackstone transaction in conjunction with Sunwest's reorganization in Chapter 11 towards the end of this year.

The offer depends on the continuation of the restructuring that is currently in progress under the leadership of Clyde Hamstreet, chief restructuring officer, and federal receiver Michael Grassmueck, who was appointed last March after the SEC filed its lawsuit. If approved by the court, the transaction would close at the time the Sunwest Chapter 11 plan becomes effective.

FBOP Ordered To Cut CRE Exposure in a Hurry

FBOP Corp., an Oak Park, IL-based bank holding company that owns and controls nine banks across the U.S., entered into a cease and desist order with the Federal Reserve Bank of Chicago.

The order gives FBOP 30 days to come up with a plan to reduce its concentrations of commercial real estate loans. FBOP banks have nearly $13.5 billion in loans and leases outstanding, of which $12.9 billion are real estate related. Almost half of its real estate loans are tied to multifamily and commercial income producing properties. Of its CRE loans, about $175 million are considered nonperforming and FBOP's banks hold another $100 million in foreclosed CRE properties.

The cease and desists also gives FBOP 90 days to come up with an acceptable risk management plan.

FBOP's banks are as follows.

California National Bank, Los Angeles, CA, $7.1 billion in assets;
Park National Bank, Chicago, IL, $4.8 billion;
San Diego National Bank, San Diego, CA, $3.4 billion;
Pacific National Bank, San Francisco, CA, $2.1 billion;
North Houston Bank, Houston, TX, $315 million;
Madisonville State Bank, Madisonville, TX, $230 million;
Bank USA, NA, Phoenix, AZ, $185 million;
Citizens National Bank, Teague, TX, $106 million; and
Community Bank of Lemont, Lemont, IL, $82 million.

S&P Drops CapitalSource To Speculative Territory on CRE Loans

Standard & Poor's Ratings Services lowered its ratings on CapitalSource Inc., including lowering the counterparty credit rating to 'B+/C' from 'BB/B'. CapitalSource's outlook is negative.

"The rating action reflects our expectation that CapitalSource's concentration in higher-risk loan types will cause asset-quality deterioration through at least year-end 2010. We also expect elevated credit provisions to continue to depress profitability, which may put downward pressure on capital levels," said Rian M. Pressman, an S&P credit analyst. "We expect asset quality to continue to weaken through at least year-end 2010. We view [commercial real estate] as particularly susceptible to late-cycle credit deterioration because of the deep recession and uncertain credit-market conditions, which have made it difficult for even performing borrowers to refinance."

CapitalSource is a commercial lender and has a specialty in commercial real estate lending, particularly on health care financing to senior housing and skilled nursing facilities. Commercial real estate lending comprised more than 60% of its asset portfolio as of June 30. In the second quarter, loans on nonaccrual totaled almost $900 million or almost 9% of commercial lending assets, up more than 300 basis points from the sequential quarter.

In addition to loans, commercial lending assets include an $887.6 million "A" participation interest in CRE loans. S&P said it expects those loans to pay off in full.

Chevy Chase, MD-based CapitalSource lost $247 million in the second quarter largely driven by credit provisions of $204 million. As of June 30, CapitalSource's loan-loss allowance for commercial loans was $448 million. Management estimated that additional provisions could exceed $600 million, much of which would likely be taken during the latter half of 2009 and 2010.

Indiana, Feds Move Quickly To Close Irwin Financial's Banks

With Irwin Financial Corp. apparently unable to shore up its banks' soundness by the end of the month, federal and state regulators this past week moved swiftly to close its Irwin Union Bank FSB in Louisville, KY, and Irwin Union Bank and Trust Co. in Columbus, IN. The regulators named the Federal Deposit Insurance Corp. (FDIC) as the receiver for the banks. The FDIC entered into a purchase and assumption agreement with First Financial Bank NA in Hamilton, OH, to assume all of the deposits of the two banks.

On Sept. 15, the Federal Reserve System and the Indiana Department of Financial Institutions issued a cease and desist order to Irwin Financial. The order called for Irwin Financial to boost its overall capital ratio to at least 11% by the end of this month. Three days later, the U.S. Office of Thrift Supervision and the Indiana department stepped in to close its banks altogether.

The OTS said that Irwin Union Bank, which had total assets of $518.2 million and 103 employees, was in "an unsafe and unsound condition to conduct business because of its deteriorating asset quality, weak earnings and inability to develop an acceptable operating plan."

In closing Irwin Union Bank and Trust Co., the Indiana Department of Financial Institution’s Director David H. Mills said that "Irwin Union Bank and Trust Co. was operating in an unsafe and unsound manner, and its failing liquidity position left the bank in imminent danger of insolvency." As of Aug. 31, it had total assets of $2.7 billion.

In total, First Financial has acquired 27 banking centers in nine states.

"The purchase of these banking centers expands First Financial's multi-state presence that now includes 49 locations in Indiana. We're excited to extend our products, services, and brand of banking to a larger client base," said Claude Davis, president and chief executive officer of First Financial Bancorp.

The loan portfolios were purchased under modified offerings by the FDIC. Not included in such purchases are non-performing assets, other real estate owned acquisition, development and construction loans and residential and commercial land loans. All performing loans were purchased at a discount of approximately 25% and are covered by FDIC loss share agreements with a loss share threshold of an aggregate $636 million.

Approximately $2.5 billion in assets are covered under these loss share agreements.

A rapidly increasing amount of Irwin Financial's troubled loans were coming from commercial real estate assets. From the end of March to the end of June, Irwin Financial's nonperforming loans on commercial income properties and foreclosed properties jumped from $56 million (23% of its total nonperforming assets) to $80 million (more than 31% of its total nonperforming assets).

MB Financial Expects To Purchase Corus Banking Facilities

More details have emerged regarding MB Financial Bank assumption of the 11 Corus Bank offices in Illinois in the fed takeover of the commercial real estate lender.

MB Financial assumed the estimated $6.6 billion of deposits of Corus Bank at a premium of approximately $13 million. It also acquired cash and cash equivalents totaling approximately $4.7 billion and highly liquid investment securities of Corus Bank with an aggregate estimated fair value of approximately $1.9 billion.

MB Financial Bank did not acquire the real estate, banking facilities, furniture or equipment of Corus Bank. Instead, it is leasing that from the FDIC on a month-to-month basis, and was given a 90-day option to purchase or assume each lease. Acquisition costs of the real estate and furniture and equipment would be based on current appraisals and determined at a later date. The historical cost of such real estate, furniture and equipment is estimated at approximately $32 million.

MB Financial Bank said it currently intends to acquire a majority of Corus Bank banking center buildings.

Watch List Voice: Facing an Uncomfortable Refinancing Reality

The availability of money remains in the open market; the difficulty, though, that owners/borrowers are having is dealing with the severely declining values making refinancing impossible. A condition which cannot be corrected by anything other than a commercial real estate market that appreciates in value -- something that will probably not happen for several more years, at the earliest.

Most property owners acquired properties at aggressive cap rates as real estate values increased from 1999 thru 2007. Loans were readily available at 75% to 80% of acquisition price, frequently with an interest-only feature. For instance, $1 million of net operating income valued at a 6% cap rate resulted in a value of $16.7 million and a loan amount (75%) of $12.53 million. Today, net operating is income is most likely 85% of what it was several years ago, $850,000, and current cap rates are 9%, resulting in a current value of $9.44 million. Lenders have become more conservative lending at 60% loan to value ratios, or $5.67 million.

In order to refinance the outstanding loan of $12.53 million, the property owner will need to invest $6.86 million ($12.53 million less $5.67 million) to be able to secure a new loan for this property. Since the property value is currently less than the outstanding loan amount ($9.44 million current value vs. $12.53 million outstanding loan amount), it doesn't make good business sense for the property owner to invest this additional capital into the property.

The result will be for the lender to take over the property and sell it at current market values, being forced to absorb a significant loss of at least $3 million, assuming no further deterioration in property value. The only thing left for the property owner is a huge tax obligation for his debt forgiveness.

Until the CRE industry accepts the fact that current values are significantly less than past years values, they will continue to blame the lending community for lack of funds. There are loans available from most banks, insurance companies and private funds in today's environment, but at prudent underwriting standards -- which most property owners refuse to accept.

Jeff Chambers, Director, Westcap Corp., Irvine, CA

Blockbuster Closing Up to 960 Movie Rental Stores Through 2010

By: Sasha M. Pardy

The country's largest freestanding movie rental retailer, Blockbuster plans to eliminate up to 22% of its current freestanding store base -- part of a longer term effort to become a multi-channel provider of media entertainment.

Currently, the Blockbuster chain consists of 4,356 (3,750 company-owned and 606 franchisee-owned) movie rental stores in the U.S., where its primary competitor is Movie Gallery. To compete with the Netflix movie rentals by mail service, which stands at about 10.6 million subscribers, Blockbuster created a comparable "Total

Access" program, which has only 1.6 million current subscribers. The youngest new format for Blockbuster is kiosk rental units, designed to compete with Redbox. While Redbox had more than 15,000 kiosks in place by the end of June, Blockbuster currently has a network of only 497 kiosks. The company has also developed Blockbuster On Demand, which offers digital movie rentals in-home.

For the long term, Blockbuster's plan is to have a smaller overall store base (its current average store lease is 2.5 years) with fewer large stores and smaller, urban stores. Aside from growing its Total Access and On Demand subscriber base, Blockbuster plans to forge ahead with kiosk units -- it is shooting for 2,500 units by the end of 2009 and 10,000 units by the end of 2010 (Redbox is aiming for 20,000 units by the end of 2009).

Blockbuster plans for its total 2009 store closures to amount to 580 to 685 stores and for 2010, the retailer expects another 230 to 275 store will close. The retailer is avoiding lease termination costs, as many of the stores will close as leases naturally expire.

According to CoStar Tenant, the average store Blockbuster has opened this decade is about 5,600 square feet, with the typical range between 4,000 and 6,000 square feet. The retailer's "smaller" store format is about 3,000 square feet.

*To keep up on happenings and trends in retail real estate, subscribe to CoStar's Retail News Roundup, a weekly column covering retailer expansions and new concepts, store closings, bankruptcies, cutbacks, acquisition, mergers, sales. new shopping centers, personnel changes, and sustainability, for free via email by requesting to be added to the distribution list by contacting senior editor, **Sasha Pardy**.*
***Follow this link to read the current column**.*

Pratt & Whitney Slashes 1,000 Jobs in Connecticut

By: Andrew Deichler

Pratt & Whitney is closing two plants in Connecticut, resulting in 1,000 workers losing their jobs over the next two years.

The jet engine manufacturer and UTC subsidiary is relocating operations from its unionized plants in Cheshire and East Hartford to its non-union facility in Columbus, GA, as well as its locations in Asia.

Tom Mayes, vice president of Pratt & Whitney, said that despite negotiations with the International Association of Machinists (IAM) and the state of Connecticut, the company is unable to find a solution that would keep its Cheshire Engine Center and Connecticut Airfoil Repair Operations (CARO) facility open.

The state was willing to provide the company with $100 million in tax credits, while the union offered up a generous concession package.

Mayes said that Pratt & Whitney valued those incentives at about $30.8 million, which falls short of the $53.8 million that the company deemed necessary to keep its Connecticut operations competitive. He said that Pratt & Whitney did make a final proposal to the union, but it was rejected.

Mayes cited a "dramatic and sustained drop in volume, a shifting customer base and a declining aerospace market" as reasons for the company's decision. However, he stressed that Pratt & Whitney would continue to maintain a presence in Connecticut, with 10,000 employees remaining in the state.

Pratt & Whitney is receiving harsh criticism for its decision. Connecticut Senator Chris Dodd (D), who has been working for weeks with all parties involved, called the announcement "a shameful act on the part of a company that owes our state and its dedicated workforce more."

Governor M. Jodi Rell (R) agreed, saying that the decision favors company profits over people.

Union members allege that Pratt & Whitney ignored all efforts to keep the plants up and running and filed suit in Federal Court to keep the jobs in Connecticut.

Things aren't any better for aerospace employees on the West Coast. Rockwell Collins is closing its San Jose plant, resulting in the layoff of 576 workers.

The aerospace technology developer is consolidating operations, which it hopes will increase its revenue for fiscal 2010 to $4.8 billion. Revenues for fiscal 2009 are estimated to be about $4.5 billion.

Harley-Davidson Cuts More Jobs

By: Andrew Deichler

While residents of York, PA, await Harley Davidson's decision as to whether or not it plans to permanently relocate its largest manufacturing facility, one thing is certain - even if the plant stays open, its workforce is going to be decidedly lighter.

The motorcycle manufacturer informed 71 workers that their employment is to be permanently terminated as of Sept. 28, according to the Pennsylvania Department of Labor and Industry.

The layoffs may not come as much of a surprise, but the termination dates are likely much sooner than Harley-Davidson employees were anticipating. Companies are required to give workers 60 days notice before a mass layoff - the key word being "mass." According to Pennsylvania WARN laws, a mass layoff constitutes the termination of 500 or more employees, or 50 to 499 employees if they make up at least 33 percent of the company workforce.

With Harley-Davidson employing approximately 2,000 people in the York plant alone, these job cuts did not need to be reported. The motorcycle manufacturer is trying to find a way to increase profitability after its net income fell 91% from last year.

Local Closures & Layoffs

Company	Location	Layoff or Closure	# Impacted	Impact Date
Bank of America	2000 Clayton Rd, Concord, CA	layoff	68	10/3/2009
Sargent Fletcher Inc. DBA Cobham	9400 E Flair Dr, El Monte, CA	closure	26	10/29/2009
Kairak	500 S State College Blvd, Fullerton, CA	layoff	55	10/30/2009
American Lithographers	21062 Forbes St, Hayward, CA	closure	66	10/25/2009
Klaussner of California	16050 Canary Ave., La Mirada, CA	closure	84	10/19/2009
Pacific Clay Products	14741 Lake St, Lake Elsinore, CA	layoff	119	10/16/2009
Sky Chefs Inc.	7000 World Way W, Los Angeles, CA	layoff	79	10/20/2009
United	Los Angeles International Airport, Los Angeles, CA	layoff	26	10/14/2009
Lifescan Inc.	1000 Gibraltar Dr, Milpitas, CA	layoff	87	10/2/2009
Deutsch Defense Aerospace Operations	250 Eddie Jones Way, Oceanside, CA	layoff	121	10/5/2009
Workflowone	425 S Rockefeller Ave, Ontario, CA	layoff	49	10/29/2009
Avis Budget Car Rental	230 Harbor Way, Orange, CA	closure	142	10/31/2009
Riverside Cement	19409 National Trail Hwy, Oro Grande, CA	layoff	88	10/18/2009
Roche Palo Alto LLC	3431 Hillview Ave, Palo Alto, CA	layoff	62	10/1/2009
Ethicon Engo-Surgery	101 Saginaw Dr, Redwood City, CA	closure	31	10/16/2009
HSBC	1441 Schilling Pl, Salinas, CA	layoff	37	10/5/2009
Smiths Medical Ads Inc's	9255 Customerhouse Plaza, San Diego, CA	closure	32	10/30/2009
The San Diego Union-Tribune LLC	350 Camino De La Reina, San Diego, CA	layoff	116	10/11/2009

In-Home Supportive Services Consortium	4153 Mission St, San Francisco, CA	layoff	103	10/20/2009
Nova Knits Inc.	645 Harrison St, San Francisco, CA	closure	63	10/2/2009
United	San Francisco International Airport, San Francisco, CA	layoff	28	10/25/2009
Aramark Sports and Entertainment Services LLC	360 Saratoga Ave, San Jose, CA	closure	75	10/10/2009
Rockwell Collins	2701 Orchard Parkway, San Jose, CA	closure	576	10/27/2009
Mark Window Products	2730 S Main St, Santa Ana, CA	layoff	86	10/5/2009
Liz Claiborne Inc.	9400 Santa De Springs Rd., Santa Fe Springs, CA	closure	245	10/15/2009
Genentech Inc.	1 DNA Way, South San Francisco, CA	layoff	81	10/15/2009
Men's Wearhouse	1340 Enterprise Dr, West Chester, PA	closure	100	11/13/2009
JP Morgan Chase & Co.	11 E. Wisconsin Ave., Milwaukee, WI	closure	43	11/15/2009

Loan Maturities

The following is a weekly feature from CoStar Group of commercial real estate properties on which the loans backing the property are 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 as part of the loans inclusions in a commercial mortgage backed securities offerings.

Property	Address	Property Type	End Bal.	Mat. Date	Note Rate

West Union Corporate Building	5865 S Ash Ave., Tempe, AZ	Industrial	$3,047,489	7/5/2010	8.31%
Carousel Ranch Mobile Home Park	4315 North Flowing Wells Road, Tucson, AZ	Mobile Home	$914,572	3/1/2010	8.63%
Parc Pointe Apartments	620-640 North Hollywood Ave., Burbank, CA	Multifamily	$19,042,541	6/1/2010	8.06%
Gardena Village Shopping Center	15435 S Western Ave., Gardena, CA	Retail	$2,521,094	3/1/2010	9.13%
La Brea Office Building	110 S La Brea Ave., Inglewood, CA	Office	$2,667,508	5/1/2010	8.38%
Clock Tower Plaza	2005-2073 West Ave. K, Lancaster, CA	Retail	$1,947,954	7/1/2010	8.51%
Metro Arts Building	5657 Wilshire Blvd, Los Angeles, CA	Office	$4,054,305	4/1/2010	8.40%
East Colorado Boulevard Retail	3813 East Colorado Blvd., Pasadena, CA	Retail	$474,663	3/1/2010	9.50%
Roseville-Sutter Medical Office Building	2 Medical Plaza Drive, Roseville, CA	Office	$7,256,754	10/10/2010	7.20%
Pioneer Center Retail	501 -557 Azusa Ave.; 1751 E Rowland Ave., West Covina, CA	Retail	$1,936,315	6/1/2010	8.88%
Eagle River Business Center	8100 Shaffer Parkway, Littleton, CO	Industrial	$2,100,577	4/1/2010	8.31%
Cottonwood Plaza Shopping Center	17721 - 17789 Cottonwood Drive, Parker, CO	Retail	$1,749,631	2/1/2010	9.06%
The River Inn	924 25th St. NW , Washington, DC	Hotel	$7,709,036	11/1/2010	7.00%
Continental Court	65 S Chapel St., Newark, DE	Multifamily	$3,372,006	5/1/2010	8.08%
Atrium Center	4801 South University Drive, Davie, FL	Office	$5,094,329	6/1/2010	8.74%
Cypress Square Shopping Center	13451 Mcgregor Blvd, Fort Myers, FL	Retail	$2,016,680	1/1/2010	8.88%
Chili's Plaza	SEC of US Highway 41 and Robinhood St., Sarasota, FL	Retail	$3,605,670	5/1/2010	8.42%
Windward Concourse	1355 Windward Concourse, Alpharetta, GA	Office	$11,395,683	10/10/2009	6.88%
Meadows of Gwinnett County Apartments	9-22 and 27-29 Britain Drive, Lawrenceville, GA	Multifamily	$2,218,322	7/1/2010	8.11%
Holcomb Corners Shopping Center	3375 Holcomb Bridge Road, Norcross, GA	Retail	$1,507,389	4/5/2010	8.53%
Champaign Village Shopping Center	1812-2002 Glen Park Drive, Champaign, IL	Retail	$3,274,959	3/1/2010	8.57%
Sugar Creek Apartments	606 S Linden St.; 404 E Vernon Ave., Normal, IL	Multifamily	$2,896,815	1/1/2010	8.29%
Brush Hill Office Courte	740 Pasquinelli Drive, Westmont, IL	Office	$7,498,677	1/1/2010	8.76%
Southport Associates Retail	354 - 378 Western Blvd., Greenwood, IN	Retail	$1,307,519	5/1/2010	8.50%
K-Mart Retail - South Bend, IN	U.S. Route 31, South Bend, IN	Retail	$2,478,037	7/1/2010	8.57%
Crestwood Plaza	6930-6956 Crestwood Blvd., Frederick, MD	Retail	$4,153,921	7/1/2010	8.31%
GMAC 2000-C2; Master & Special Servicer: Capmark Finance					

Watch List of Distressed Properties & Loans of Concern

The following is a weekly feature from CoStar Group of potentially distressed properties that may be affected by worsening financial conditions, borrower issues, deteriorating property conditions, or changes for the worse in lease rollovers, tenant issues or vacancies. 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 as part of the loans inclusions in a commercial mortgage backed securities offering.

Property	Location	Property Type	Comments
Lightstone Portfolio	see next four listings	Retail	Purchase offers have come in from multiple potential purchasers. The aggregate maximum purchase price is $35 million. The receiver is in discussions with the potential purchasers to qualify them as buyers and see if there is any flexibility in their purchase price.
Martinsburg	800 Foxcroft Ave., Martinsburg, WV	Retail, 552,335	see above
Mount Berry Square	993 Mount Berry Square NE, Rome, GA	Retail, 477,380	see above
Shenango Valley	3303 E. State St., Hermitage, PA	Retail, 490,492	see above
Bradley Square	200 Paul Huff Parkway NW, Cleveland, TN	Retail, 385,214	see above
Carriage Hills	5601 Calmar Drive,	Multifamily, 125	90 + days delinquent

Apartments	Montgomery, AL		
Pavilions Shopping Center	1955 W. Guadalupe Road, Mesa, AZ	Retail, 127,621	The loan transferred to special servicing in June due to non-payment of the April debt service. The property is 70% occupied and does not generate sufficient cash flow to pay debt service.
2030 East Broadway	2030 East Broadway, Mesa, AZ	Multifamily, 37	The property is presently 89% occupied. The "B" note payment is in suspense until "A" note is brought current.
Miramar Professional Plaza	8910 Miramar Parkway, Miramar, FL	Office, 30,493	90 + days delinquent
Park Place LaPalma	1743 Park Center Drive, Orlando, FL	Office, 38,592	The loan was transferred to special servicing in January for monetary default again. The borrower has requested a discounted payoff. The special servicer has filed for the appointment of a Receiver since no payment has been received since March, and the Borrower has failed to provide evidence of their ability to pay off the loan as proposed.
833 Jackson & 322 Green	833 W. Jackson Blvd; 322 S. Green St., Chicago, IL	Office, 151,716	The borrower has indicated that it shall seek an extension of time under which to file its plan.
Ford City Office Plaza	7601 S. Kostner Ave., Chicago, IL	Office, 50,791	90 + days delinquent
The Cottages of Fall Creek	6802 E. 56th St., Indianapolis, IN	Multifamily, 770	At year-end 2008, debt service coverage was .76 and occupancy was 85%. Loan transferred to special servicing in May due to monetary default. The borrower has actively marketed this property for sale.
The Orchard Apartments	5350 Cider Mill Lane, Indianapolis, IN	Multifamily, 378	At year-end 2008, debt service coverage was .74 and occupancy was 86%. Loan transferred to special servicing in May due to monetary default. The borrower has actively marketed this property for sale - best offer received thus far was only $10.6 million and would require assumption/modification of existing debt. Lender would have to pay brokerage fees & closing costs.
Spectrum Centre	32000 Northwestern Highway, Farmington Hills, MI	Office, 56,873	90 + days delinquent
Tulane Park Apartments	7100 Tulane Road, Horn Lake, MS	Multifamily, 256	This is a B note & A note specially serviced by Midland. Loan was transferred to special servicing due to delinquency. Midland received an appraisal stating a value that is less than the A note balance. Midland is now pursuing property since borrower has rejected a modification to the loan.
Value City Warehouse	2560 Value Way Drive, Columbus, OH	Industrial, 410,307	Racking systems throughout the three buildings are being removed by the receiver and continues to market the asset.
530 & 534 Degler St.	530 & 534 Degler St., Defiance, OH	Multifamily, 64	This B-note transferred to special servicing for delinquency in May 2008. The special servicer has initiated a foreclosure complaint and motion for appointment of receiver (granted 6/3/09). The motion grants the receiver authority to list, market and sell the property. In addition, the special servicer is evaluating a note sale.
Attache Apartments	17525-17535 Madison Aven., Lakewood, OH	Multifamily, 72	The loan transferred into special servicing due to payment default. Midland had a receiver appointed on June 25.
Timberstone Commons	4021 & 4031 N. Mccord Road, Sylvania, OH	Retail, 56,350	90 + days delinquent
1298-1400 Worthington Woods	1298-1400 Worthington Woods, Worthington, OH	Multifamily, 40	The loan transferred to special servicing in January due to non-monetary default. The special servicer is exploring forbearance options on A-note to recover

			past due amounts and then will focus on B-note.
Gaffney Portfolio	1230 Overbrook Drive, Gaffney, SC	Multifamily, 92	90 + days delinquent
Forest Estates Apartments	9655 Chimney Hill Lane, Dallas, TX	Multifamily, 276	This is a "B" note. The property is in a receivership and it is being marketed for sale with an assumption/modification of the loan.
Harbor Pointe Apartments	4101 Nasa Road, El Lago, TX	Multifamily, 198	90 + days delinquent
Bear Creek Apartments	601 Del Paso St., Euless, TX	Multifamily, 235	The loan transferred into special servicing in March for monetary default.
Mezz Cap 2006-C4; Special Servicer: Midland Loan Services			

Update: Younan Resolves Dispute Over $261 Million CMBS Loan

Younan Properties Inc., a Los Angeles, CA-based privately held real estate investment and asset management firms, has resolved disputes between it and special servicer LNR Partners in connection with a $261 million loan for a portfolio of seven office properties totaling more than 2 million square feet.

The properties collective known as the YPI Transwestern portfolio are included in the ML-CFC Commercial Mortgage Trust 2006-4, a commercial mortgage-backed securities (CMBS).

The loan, which is in "good standing," will be transferred back to its normal loan servicer.
The interest-only, fixed-rate loan bears interest of 5.83% and matures on Oct. 8, 2011.

"We consistently stated that this dispute had nothing to do with our ability to meet our financial obligations, but rather stemmed from a technical dispute over approval provisions that led to a freeze of our own funded reserves, which we were using to fund tenant improvements," said Zaya S. Younan, chairman and CEO of Younan Properties.

The loan, representing four office properties in Chicago and three office properties in Dallas, was moved to special servicing in the first quarter of 2009. The servicing dispute centered around 200 N. LaSalle in the Chicago CBD, which is 92% leased and performing better than its submarket. Babcock & Brown, the former mezzanine lender sought to prohibit Younan from accessing its own reserve funds used for tenant improvements and leasing commissions. Babcock & Brown subsequently filed for bankruptcy protection in the first quarter of 2009.

The four office properties in the Chicago metropolitan area include 200 N LaSalle, a high-rise office building in the Chicago CBD; 1600 Corporate Center, Rolling Meadows; Bannockburn Corporate Center, Bannockburn; and Kensington Corporate Center, in Mount Prospect. The portfolio also includes three Dallas office buildings; Energy Square I, II and III, on the North Central Expressway.

"While this servicing issue received more public scrutiny than it deserved because of the current economic climate, we are proud of the fact that we were able to successfully resolve it using the same prudent business policies and practices that have made Younan Properties so successful in the past," Younan said. "This severe recession has been challenging for all businesses, but moving forward our superior property management and operational expertise provide the platform for Younan to continue to grow as the economy improves."

Update: Millions Cut from Appraised Value of Riverton Apartments

The Riverton Apartments consisting of 12 13-story buildings totaling 1,230 units in the Harlem section of New York City was reappraised this past and was dropped in value by more than $122 million. The appraisal reduction amount was increased from $52 million this past February.

The new value implied a potential loss of over half the value of a $225 million loan on the property.

"While this is obviously disturbing news, it must be noted that this is not a typical CMBS loan," said Charles Cecil, partner at Opin Partners in New York. "The deal was aggressively underwritten assuming rent stabilized units could be successfully converted to market rent, a scenario that has not played out. Why investors initially bought off on that story puzzles us, but we can probably conclude that there was a lot of reliance on the ratings from the rating agency."

The mezzanine lender on the Riverton, Realty Finance Corp., recently exercised its right to initiate foreclosure proceedings and may assume control and sell the loan.