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Real Estate Market Update

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Deals Update

Southern California developer increases Sacramento holdings

Sacramento Bee - Dec 29

A south state development firm is elevating its Sacramento presence by purchasing one of the city's trophy office properties. The CIM Group recently acquired the 25-story U.S. Bank Plaza building at Ninth and J streets. The seller is TIAA-CREF, a New York financial services company that paid a staggering $159 million for the building in 2005. George Eckard, a Cushman & Wakefield broker who represented the seller, declined to reveal the price paid. But he says it's low enough that CIM's lease rates will be "very competitive with Capitol Mall buildings." Others in the commercial real estate community tell us CIM paid roughly $100 million for the 440,000-square-foot building and an adjacent parking garage.

Lehman close to sale of two real estate funds

Reuters - Dec 11

Lehman Brothers Holdings is close to selling two of its real estate private equity funds to real estate investment firm PCCP, a spokeswoman for Lehman said. The two funds, Lehman Brothers Real Estate Mezzanine Partners I and II, have more than $2 billion in assets and were formed in 2005 and 2007. U.S. investment bank Lehman filed for bankruptcy protection in September 2008, after trying to finance too many assets with too little capital. Lehman is still to complete deals to sell the remaining private equity-related assets, Real Estate funds II and III, and European Mezzanine Partners 2003. PCCP has more than $4 billion in assets under management, according to its website.

Morgan Stanley to surrender five San Francisco towers

Bloomberg - Dec 17

Morgan Stanley, which spent more than $8 billion on commercial property in 2007, plans to relinquish five San Francisco office buildings to its lender two years after purchasing them from Blackstone Group LP near the top of the market. The bank has been negotiating an “orderly transfer” of the towers since earlier this year, a Morgan Stanley spokeswoman said. AREA Property Partners will take over the buildings, which have been held by the bank’s MSREF V fund. The San Francisco transfer would mark the second real estate deal to unravel this year for Morgan Stanley, which bet on the property markets as prices were rising.

FDIC Draws Brisk Bidding on Loans by Failed Banks

Wall Street Journal - December 23, 2009

Investors are jostling for the chance to buy a $1.1 billion package of commercial real-estate loans extended by failed banks, as these once-toxic assets attract growing interest. More than a dozen investors, including Texas banker Andrew Beal, have submitted bids to the Federal Deposit Insurance Corp. for the portfolio of loans held by Franklin Bank, IndyMac Bank and other failed lenders, according to sources. But the portfolio represents only a fraction of the real-estate loans held by the FDIC and the volume is mounting as more banks fail. The FDIC, which declined to comment on pending transactions, is expected to announce the winning bidder within weeks in what will be its second-largest bulk sale of commercial-property assets since the downturn. The largest deal involved the sale in October of about $5 billion in condominium loans and other property made by now-defunct Corus Bank.

Brokers pitch vacant buildings to end-users

REAlert - Dec 16

With many opportunistic real estate investors on the sidelines, brokers are increasingly pitching empty or mostly vacant office properties to end-users. Companies looking to relocate can be enticed by the drop in property values, brokers said. Also, businesses can qualify for low-cost government loans and tax incentives that make acquisitions more affordable. Companies can now take over larger and higher-quality space while paying prices that are significantly below the replacement cost, said a Jones Lang LaSalle broker who has seen an upswing in interest from end-users. Brokers are also marketing buildings to existing tenants. In some instances, occupants have been willing to buy multi-tenant properties and become the landlord of the space they don't use.

Unlisted REITs emerge as investor powerhouse

GlobeSt. - Dec 16

The non-traded REIT sector has emerged as a force in the investment arena. According to data compiled for the year by Real Capital Analytics, these vehicles are now the second-largest net investor group in 2009 among all property types, and are steadily attracting investor dollars as well. No fewer than 12 investment managers are raising funds for unlisted REITs this year, accounting for more than $20 billion in capital--particularly from private and individual investors looking to place money into real estate. At this rate, the non-traded REIT pool will become almost as large, in terms of investment capital, as public REITs. Two of the largest players were Behringer Harvard, based in Addison, TX, and Inland American Real Estate Trust of Oak Brook, IL.

Simon Property to Buy Outlet Mall Unit

New York Times - December 8, 2009

In a deal valued at around $2.3 billion with debt included, Simon Property Group will pay $700 million to acquire all Prime Outlets Acquisition assets. "Following the completion of this transaction, our outlet portfolio will have 63 centers comprising approximately 25 million square feet," said Simon's chairman and CEO.

Special Features

Who's in trouble: Loan defaults in Orange County

Orange County Register - Dec 30

The following is a list of commercial real estate and homebuilder defaults involving Orange County firms tracked since September 2008 and compiled by the Orange County Register.

Industry balances fear and hope in commercial real estate

CoStar - Dec 30

Hope and fear are overlapping in the commercial real estate industry, as those inside don't know whether to look out for it or look forward to it. Although the year is ending, much of the bad from 2009 will carry over into 2010. Investors are saddled with troublesome debt and weak fundamentals and 2010 presents very few elixirs for the pains of 2009. CoStar presents comments from industry executives and observers first about what excites them - second what worries them -- about 2010.

Street Wise looks at distressed asset pipeline for 2010

Street Wise - December 6, 2009

Two years ago there was anticipation over a tsunami of distressed assets which would be coming to market based upon the sub-prime mortgage crisis and the stresses it would exert on the credit markets in general, according to Street Wise. Despite the market turmoil over the past 2 years, the tsunami has not arrived, not even close. The fact that only a few distressed assets have been put in play is not because they aren't out there. The pipeline is chock full of them, yet some have not come to the market because they aren't even in default yet due to mortgages which are still in interest only periods or are operating on an interest reserve set up by the lender when the loan was originated.

Real estate investors planning on buying commercial properties like it's 2005: Survey

National Mortgage Professional - Dec 21

After a quiet year of investment sales, buyers are preparing to forge ahead with acquisitions in 2010. Two-thirds of investors (65%) who responded to the 6th Annual Investment Survey plan to boost their investment in commercial real estate over the next 12 months. That figure is up from 56% in the third quarter and 51% a year ago. Respondents who do plan to expand existing portfolios anticipate an average increase of 26%, up from 24%in the third quarter and 22% a year earlier. Overall, 72% of respondents indicate that they are currently amassing capital in preparation for buying opportunities. The majority of investors expect to execute more transactions. More than one in four respondents say they have already started adding to their portfolios, while an additional 41% say they plan to begin acquiring property over the next six months.