THE WATCH LIST

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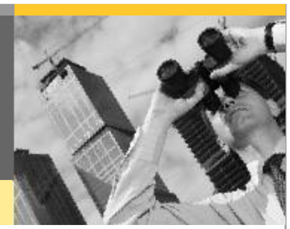

A WEEKLY NEWSLETTER FOCUSING ON CHANGING MARKET CONDITIONS, COMMERCIAL REAL ESTATE, MORTGAGES AND CORPORATIONS PUBLISHED BY COSTAR NEWS

IN THIS WEEK'S ISSUE:

New CRE Investment Capital Shrinks

Two-Thirds of the Money Raise Went to Eight Firms

Companies and funds reported raising $33.18 billion from investors in the second quarter of for commercial real estate-related deals and refinancings, a 25% drop from the first quarter when $44.88 billion was raised. The second quarter amount was a 9% drop from a year ago.

CoStar Group tracks the fundraising activity of thousands of entities on an ongoing basis and adds about 125 new entities per month.

Of the money raised in the second quarter, about $26 billion was to be used primarily for investments and acquisitions. The remainder was primarily targeted for repaying debt.

Of that amount targeted for new investments, an estimated $21.9 billion was earmarked for property-related investments, the remainder for debt, mortgage or securities purchases.

Of the total amount raised in the second quarter, $13.8 billion was from publicly offered shares in REITs and real estate operating companies with about half of the amount expected to be used for debt repayment or refinancing.

The other $19.4 billion raised in the fourth quarter came from private fund raising efforts and was all earmarked for new investment. Of that amount, pooled investment funds including private equity and hedge funds raised $8 billion.

The largest bulk of funds raised (an estimated 24%) was earmarked primarily for office investments. Industrial was the second most targeted property type at 18%. Funds targeting health care, land and multifamily investments raised about 14% each of the total; retail about 10% and lodging 6%.

Eight sponsoring firms each reported raising $1 billion or more in the quarter.

- Brookfield Asset Management Inc., $2.64 billion
- Lion Industrial Trust, $2.02 billion

- Blackstone Group, $1.85 billion
- Hancock Natural Resource Group Inc., $1.85 billion
- Angelo, Gordon & Co., $12 billion
- Westbrook Realty, $1.05 billion
- Annaly Capital Management Inc., $1.03 billion
- Boston Properties Inc., $1 billion

Need Relief?

Build vs Buy Becoming More of a Norm for REITs

Development pipelines for U.S. REITs have been on the rise following a quiet couple of years, according to Fitch Ratings in a new report.

After remaining flat in 2010 and first quarter-2011, development pipelines have been on the rise the last four quarters.

"Multifamily REITs are currently developing most actively as demand in the sector has clearly diverged from other property types," said Steven Marks, a Fitch managing director.

Fitch observed that REITs across property type sectors have had varying approaches to the build-versus-buy decision. For example, many health care REITs have opted to grow via large-scale corporate and property acquisitions due to industry consolidation and the ability to capitalize on economies of scale. Datacenter REITs have taken a different approach and have grown rapidly through both speculative and build-to-suit developments due to the dynamic needs of their unique tenant base.

Office REITs have had modest levels of development over the past 10 years, compared with other sectors. Unfunded pipeline commitments made up less than 1% of gross assets at March 31, 2012. These commitments are comprised almost exclusively of a few large-scale developments in top-tier central business district (CBD) markets, such as New York City.

U.S. REIT development pipelines have been volatile over the last 10 years. After peaking at nearly $34 billion in the fourth quarter of 2007, development programs decreased sharply over the next two-and-a-half years. This decrease was due to a significant demand slowdown combined with REITs seeking to preserve liquidity and reduce leverage.

"While surging in recent months, development exposure remains fairly muted and not a meaningful credit risk for equity REITs," said Marks.

The total publicly-traded REIT development pipeline is currently 55% smaller than its peak in 2007. Further, total development pipelines represented only 2.7% of total undepreciated assets as of March 31, 2012, down from a peak of 7.6% as of 2007.

Public companies have leveraged their access to capital and good liquidity positions to fund their development programs, while construction financing for private developers has been highly constrained over the past several years, Fitch said. REITs will face greater competition for development opportunities, and supply will increase should construction financing become more readily available.

EverBank Expanding Owner-Occupied CRE Lending

EverBank will acquire the Business Property Lending unit of GE Capital Real Estate.

Business Property originates and services commercial real estate loans for essential use properties owned or leased by small and midsize businesses nationwide.

Under the terms of the agreement, Jacksonville, FL-based EverBank will acquire the unit for $2.51 billion in cash. No debt will be assumed in the acquisition.

The transaction includes approximately $2.44 billion of performing commercial loans, the origination and servicing platforms, 108 employees and servicing rights on $3.1 billion of loans securitized by GE Capital.

"The deal "represents a compelling strategic expansion into business property lending in key metropolitan areas where EverBank currently has significant lending, leasing and deposit customers," said Robert Clements, chairman and CEO of EverBank.

Business Property currently has offices in California, Connecticut, Florida, Georgia, Illinois, Missouri, Pennsylvania, Texas and Washington.

CMBS Delinquency Rate Hits New All-Time High in June

The delinquency rate for U.S. commercial real estate loans in CMBS moved up 12 basis points in June to 10.16%. This new all-time high comes just one month after cracking through the 10% barrier, according to Trepp LLC.

Late last year, Trepp had predicted that the market could easily see a spike of 70 basis points in the short-term. As the CMBS market has now seen the rate increase 64 basis points since late 2011. Since February, the delinquency rate is up 79 basis points.

The good news for the CMBS market is that most of the five-year loans originated in 2007 were made in the first six months of that year. Having just hit the halfway mark in 2012, the number of 2007 five-year loans reaching their maturity dates will fall off sharply over the next six months.

"Driving the rate up has been the fact that only 28% of the loans from 2007 due to mature in 2012 managed to pay off in full," said Manus Clancy, senior managing director at Trepp. "Now that most of the 2007 loans coming due in 2012 have passed their maturity date, the delinquency rate should start to level off soon."

The increase in the delinquency rate was driven by weak performance among lodging, office and retail loans. The only major property type to improve in June was the industrial segment. Multifamily loans ended the month unchanged.

Currently, $59 billion in loans are delinquent. This excludes loans that are past their balloon date but are current in their interest payments. There are $75.9 billion in loans with the special servicer.

Commercial Real Estate Loan Prices Rise in May

The aggregate value of commercial real estate loans priced by DebtX that collateralize CMBS increased to 88.2% as of May 31, up slightly from 88.1% as of April 30 but up seven basis points from 81.6% a year ago.

"Commercial real estate loan prices climbed for a fifth straight month in May as underlying market conditions continued to improve," said Kingsley Greenland, DebtX CEO. "CRE loan prices in May benefited from a decline in Treasury yields."

In May, DebtX priced 55,510 CRE loans with a $765.7 billion aggregate principal balance. These loans collateralize 732 US CMBS trusts.

Eurozone Troubles Tighten CRE Lending

Frankfurt, Germany-based Commerzbank is getting out of commercial real estate financing as well as ship financing in light of the continuing uncertain situation in the European financial markets.

"Against the background of the ongoing financial and sovereign debt crisis, an end to which is not foreseeable, and of the uncertain regulatory environment, we are subjecting all the business areas to a rigorous review in the framework of our strategic planning process," said Martin Blessing, chairman of Commerzbank, the largest CRE lender in Germany. "The strategic objective is that of consistently focusing Commerzbank on customer-centric and sustainably profitable core business and further minimizing risks and capital lockup."

Commercial real estate and ship finance are to be transferred in full to the new segment of Non Core Assets (NCA).

Commerzbank’s planned exit from commercial property lending comes just three months after it said it would continue such lending and signals accelerating deleveraging in Europe, Fitch Ratings said.

A wave of commercial property loans will mature in July and Fitch Ratings expects most of these to fail to repay investors due to a lack of refinancing options.

The European bank deleveraging response varies from country to country and from bank to bank. In France, the focus is more on aircraft and ship finance, trading securities and legacy assets from the crisis. Some UK banks, notably Lloyds and Royal Bank of Scotland, are also pulling back from CRE lending.

Kearny Hits Half Way Mark in $1 Bil. Loan Acquisitions Goal

Kearny Real Estate Co. in a venture with Morgan Stanley Real Estate Investing has acquired a commercial real estate loan portfolio with an outstanding balance of $89 million from an international financial services company.

The portfolio comprises 17 performing, sub- and non-performing loans secured by 1.65 million square feet of office, industrial and retail assets. The properties are in California, Texas, Washington, Pennsylvania, New Mexico, Illinois, Oregon, Ohio, Tennessee and Florida.

In the last 20 months, Kearny has closed on more than $500 million of loan acquisitions with a goal to acquire an additional $500 million, according to Kearny managing partner Jeffrey A. Dritley.

Eastdil Secured represented both the buyer and seller.

KBS Flips Office Building Note

KBS Real Estate Investment Trust II sold the A and B notes collateralized by The Northern Trust Building in La Jolla, CA, to an undisclosed buyer.

KBS REIT II purchased the A-Note for $58.1 million in December 2008, and acquired the B-Note for $2 million last week.

KBS REIT II sold the Northern Trust notes for approximately $85.8 million, resulting in an economic gain of $24.8 million after closing costs.

"This was a pivotal transaction for KBS REIT II," said Keith Hall, executive vice president of KBS REIT II. "The deal required KBS to acquire the other participating debt prior to closing in less than two weeks."

The Northern Trust Building was constructed in 1987 as a 10-story office tower offering 188,918 square feet of Class-A space. Located within the Plaza at La Jolla Village, a master-planned office complex within the University Town Center/Golden Triangle submarket of San Diego, the building includes a restaurant on the ground floor and a 124-stall underground parking garage.

GGP Finances $3.1 Bil. of Property Debt

General Growth Properties Inc. completed $3.1 billion of property-level financings during the second quarter 2012.

The new mortgages have a weighted average interest rate and term of 4.2% and nine years, respectively, as compared to a rate of 5.24% and a remaining term-to-maturity of 3.9 years.

In addition, the financings eliminated $640 million of recourse to GGP and eliminated the cross collateral provision between Fashion Show and The Grand Canal Shoppes/The Shoppes at The Palazzo.

The transactions generated $329 million of net proceeds after repayment of existing mortgage notes.

Information regarding each financing is as follows.

Mall	Location	Balance in $mil	Interest Rate	Due Date
Provo Towne Centre	Provo, UT	$42	4.53%	6/1/2017
The Grand Canal Shoppes and The Shoppes at The Palazzo (a)	Las Vegas, NV	$625	4.24%	6/1/2019
Oakbrook Center	Oakbrook, IL	$425	3.66%	7/1/2020
Ala Moana Center	Honolulu, HI	$1,400	4.23%	4/1/2022

Mall	Location	Balance in $mil	Interest Rate	Due Date
Harborplace & The Gallery	Baltimore, MD	$82	5.24%	5/1/2022
The Streets at Southpoint	Durham, NC	$260	4.36%	5/1/2022
Spokane Valley Mall	Spokane Valley, WA	$63	4.65%	6/1/2022
Florence Mall	Florence, KY	$90	4.15%	6/1/2022
Greenwood Mall	Bowling Green, KY	$63	4.19%	7/1/2022

Lehman Brothers Sells Aurora Bank

Lehman Brothers Holdings Inc. sold substantially all of the assets and transferred substantially all of the insured deposits of its indirectly wholly owned multi-billion dollar subsidiary, Aurora Bank FSB.

Shortly after Lehman filed for bankruptcy in 2008, Aurora and Lehman's other multi-billion dollar subsidiary bank, Woodlands Commercial Bank, were at risk of being seized and placed into receivership by the FDIC. Instead, with the support of its creditors and the consent of the U.S. Bankruptcy Court, and working cooperatively with the federal and state bank regulatory agencies, Lehman made a series of capital and liquidity injections to initially stabilize and ultimately recapitalize the banks, positioning them for this more favorable outcome.

"In completing the sale of substantially all of Aurora through an open-door process, we have achieved something that has rarely been accomplished over the past few years," said Doug Lambert, a managing director of Alvarez & Marsal and a director of Aurora's board. "In December 2011, we completed the resolution process of Woodlands Bank at no loss or cost to the FDIC or taxpayers, and now with the completion today of the sales of

Aurora's residential servicing assets to Nationstar Mortgage LLC and the transfer of all customer deposits to New York Community Bank, we have taken a significant step toward the successful resolution of Aurora."

New York Community Bank assumed $2.2 billion of FDIC-insured deposits from Aurora Bank.

Nationstar Mortgage acquired $63.7 billion in residential mortgage servicing rights as measured by unpaid principal balance. The composition of the Aurora portfolio is approximately 75% non-conforming loans in private label securitizations and approximately 25% conforming loans in GSE pools.

"During the past three and a half years, we successfully oversaw management of the two banks' resolution processes, restoring regulatory capital which allowed the time necessary for the overall financial markets to recover from the economic downturn, averting enormous liability to the Lehman estate and ultimately allowing us to pay off or transfer all customer deposits while preserving potential recovery value for Lehman creditors," Lambert said.

Following the closing of its insured deposit portfolio, Aurora will continue to exist as a federal savings bank as it seeks to comply with the terms of a consent order it entered into along with 13 other regulated institutions in April 2011.

Upcoming Corporate Facility Closures & Downsizings

Company	Address	City	State	Closure or Layoff	No. of Workers Impacted	Impact Date
Wellpoint @ Empire Blue Cross Provider Services	11 Corp Woods Blvd.	Albany	NY	Closure	72	12/8/2012
Prince Telecom LLC	144 Pillings St.	Brooklyn	NY	Closure	81	9/16/2012
SDA Inc. (dba Strauss Auto)	2686 Atlantic Ave.	Brooklyn	NY	Closure	18	8/1/2012
Capital One	One HSBC Center	Buffalo	NY	Layoff	78	4th quarter
HSBC	One HSBC Center	Buffalo	NY	Closure	77	9/18/2012
New Process Gear Inc. (Division of Magna Powertrain)	6600 New Venture Gear Drive	East Syracuse	NY	Closure	406	Undetermined
Bed Bath & Beyond	895 East Gate Blvd.	Garden City	NY	Closure	5	8/31/2012
Green and White Markets Inc.	381 N. Central Ave.	Hartsdale	NY	Closure	43	Immediately
MetLife – Reverse Mortgage Operations	2929 Express Drive North	Hauppauge	NY	Closure	25	7/31/2012
A&P / Pathmark Store	42-02 Northern Blvd.	Long Island City	NY	Closure	130	8/27/2012
Wellpoint @ Empire Blue Cross Provider Services	85 Crystal Run Road	Middletown	NY	Closure	36	12/8/2012
Gateway Energy Services Corp. (Direct Energy Services)	400 Rella Blvd., Suite 300	Montebello	NY	Layoff	51	7/31/2012
Key Punch Computer Temporaries Inc. (dba Key Systems)	936 Broadway	New York	NY	Layoff	20-40	7/31/2012
TGI Friday's	1552 Broadway	New York	NY	Closure	170	8/12/2012
Plaza Recovery Inc.	370 Seventh Ave.	New York	NY	Closure	131	8/19/2012
Credit Suisse Securities (USA)	One Madison Ave. and Eleven Madison Ave. (one site)	New York	NY	Layoff	126	8/6/2012

Company	Address	City	State	Closure or Layoff	No. of Workers Impacted	Impact Date
HMS Business Services Inc. (HMS Holdings Corp.)	401 Park Ave. South	New York	NY	Closure	86	12/31/2012
Ben Benson's Steakhouse	123 W. 52nd St.	New York	NY	Closure	80	Immediately
Haru Park Avenue	280 Park Ave.	New York	NY	Closure	77	8/24/2012
General Board of Global Ministries	475 Riverside Drive, Room 1405	New York	NY	Closure	72	9/30/2012
77kids/American Eagle Outfitters	417 Fifth Ave., 8th & 9th Floors	New York	NY	Closure	45	Immediately
Betsey Johnson	498 Seventh St., 21st Floor	New York	NY	Closure	43	7/30/2012
MetLife - Home Mortgage Operation	700 Corporate Blvd.	Newburgh	NY	Closure	134	7/31/2012
California Pizza Kitchen	201 E. 60th St.	NewYork	NY	Closure	69	9/9/2012
Pfizer	401 N. Middletown Road	Pearl River	NY	Layoff	55 - 115	Immediately
Eastman Kodak	1669 Lake Ave.	Rochester	NY	Layoff	79	8/12/2012
Eastman Kodak	115 Canal Landing Blvd.	Rochester	NY	Layoff	29	7/15/2012
Pfizer	64 Maple St.	Rouses Point	NY	Closure	20	12/31/2013
Citco Fund Services (USA) Inc.	3 International Drive, 3rd Floor	Rye Brook	NY	Closure	85	8/3/2012
Stryker	240 Westminster Raod	West Seneca	NY	Closure	11	9/30/2012
Disney Publishing Worldwide	44 S. Broadway	White Plains	NY	Closure	83	9/30/2012

Watch List: Largest 'Underwater' Multifamily Properties

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	Cur. Loan Bal.	Cur. Prop. Value	Cur. LTV	CMBS; Special Servicer	Payment Status	Maturity Date
Riverton Apartments	2171-2200 Madison Ave., New York, NY	$225,000,000	$124,000,000	181.46	Citi 2007-CD4; CWCapital Asset Management	Nonperforming matured balloon	7/11/2012
Sevilla Apartments	73373 Country Club Drive, Palm Desert, CA	$48,000,000	$27,500,000	174.54	LB-UBS 2007-C1; LNR Partners	Current	12/15/2016
Allanza at the Lakes	8600 Starboard Drive., Las Vegas, NV	$85,000,000	$51,000,000	166.67	CS 2007-C5; C-III Asset Management	Current	6/15/2014
Pelican Point	760 South Hill Road, Ventura, CA	$72,000,000	$49,900,000	144.29	JPM 2007-LDP10; C-III Asset Management	Less than 30 days del.	1/15/2015
Lynnewood Gardens - A note	2047 Mathers Way, Elkins Park, PA	$90,000,000	$90,700,000	142.78	GS 2007-GG10; CWCapital Asset Management	Current	6/10/2017
Savoy Park	45 W. 139th St., New York, NY	$210,000,000	$153,300,000	136.99	CS 2007-C1; LNR Partners	90+ days del.	1/15/2014

Property Name	Address	Cur. Loan Bal.	Cur. Prop. Value	Cur. LTV	CMBS; Special Servicer	Payment Status	Maturity Date
Trilogy Apartments - A note	8440 Limekiln Pike, Wyncote, PA	$106,000,000	$106,000,000	129.71	BS 2005-PWR9; Helios AMC	Current	7/11/2015
Westshore Cove	4003 South Westshore Blvd., Tampa, FL	$50,000,000	$40,000,000	124.93	LB 2007-C3; LNR Partners	Nonperforming matured balloon	7/15/2012
The Renaissance	100 John St., New York, NY	$84,000,000	$69,100,000	121.57	Wach 2007-C33; LNR Partners	Current	5/15/2015
Olentangy Commons Apartments	4765 Blairfield Drive, Columbus, OH	$49,600,000	$43,000,000	115.37	CS 2007-C5; C-III Asset Management	Performing matured balloon	7/15/2012
Mansions at Steiner Ranch - Secured note	4500 Steiner Ranch Blvd., Austin, TX	$52,500,000	$54,000,000	114.41	CS 2007-C1; LNR Partners	Current	1/15/2017
Carefree Alexander	3949 W. Alexander Road, North Las Vegas, NV	$43,969,000	$39,000,000	112.73	Wach 2006-C28; CWCapital Asset Management	Nonperforming matured balloon	7/15/2012
Towers at University Town Center	6515 Belcrest Road, Hyattsville, MD	$53,896,125	$52,200,000	108.87	ML-CFC 2007-8; LNR Partners	90+ days del.	5/12/2017
Meyberry House	220 E.t 63rd St., New York, NY	$90,000,000	$67,000,000	108.11	CS 2007-C4; Torchlight Loan Services	Current	5/15/2017
311 West 50th Street	311 W. 50th St., New York, NY	$47,000,000	$46,400,000	101.29	BofA 2007-1; CWCapital Asset Management	90+ days del.	1/15/2017

Top 10 CRE Stories of June

Want to catch up on commercial real estate news this summer? Here is what our readers picked as the Top 10 stories so far.

Rank	Headline	CoStar News Link
No. 10.	Mixed Indicators Point to Right-Sizing Warehouse Investment Strategy	http://bit.ly/KVDvaZ
No. 9.	Iron Mountain To Leverage Mountain of Business Records into a New Industrial REIT	http://bit.ly/L8DKyW
No. 8.	Rule Makers Reach Compromise On Lease Accounting Approach	http://bit.ly/N4WgqA
No. 7.	CRE Loan Shares Continue To Be a Concern for Bank Regulators	http://bit.ly/MBEQ2x
No. 6.	2012 Gold Rush: Alaska Wants To Buy Your Vacant House in the Lower 48	http://bit.ly/NJYVoX
No. 5.	Pace of Recovery Accelerates For Lower-End CRE Properties	http://bit.ly/MNyboG
No. 4.	Largest U.S. Pension Fund Buys Ownership Stake In Real Estate Firm	http://bit.ly/M3v6ST
No. 3.	Colliers Parent Opting Out from its Largest REO Services Contract	http://bit.ly/LP4UXn
No. 2.	Tenants Continue To Rule the Market	http://bit.ly/MeFlSC
No. 1.	Top 10 Threats to CRE This Summer	http://bit.ly/NAOuCg