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:

Whistling Thru the Graveyard: Could CRE Follow Housing into another Hollow?

Any Trip Up in the Economy Could Plunge CRE into another Recession, But Many in the Industry Don't Think it Will

Housing and commercial real estate are seemingly going in opposite directions nationally with housing prices and sales totals continuing to fall and CRE markets taking steps toward recovery. However, the fear of a double-dip housing recession is tangible - if not real - and continues to tug naggingly on the CRE industry.

When the recession began in 2007, the commercial real estate markets declines lagged but eventually paralleled the declines of the hardest-hit residential markets. If housing goes into a double-dip recession, the question many are wondering if commercial real estate is likely to follow? That was the question we put to a variety of CRE professionals and analysts.

"We are firm believers that the growing (residential) shadow inventory is causing normal buyers and sellers to pull back. This is reinforcing downward pressure in the residential market," said Gerald A. Klassen, research analyst for the Real Estate Center at Texas A&M University in College Station, TX. "With an estimated 2 million more homes headed for default in the next two years, I think the expectation of falling prices may become self-fulfilling. The only way out is to clear the market - and fast."

"If the banks are permitted to sit on inventory, then it could take years to clear just like after the Depression. This will leave real estate in a zombie state that will continue to be a drag on the economy," Klassen said.

"I am questioning the recovery in commercial real estate. The recovery has been very bifurcated," Klassen said. "Trophy properties in prime markets are fetching bubblicious prices because large institutional investors have cash burning a hole in their pockets. But from the folks we speak to, the secondary markets are still very dead."

"The risks we face in 2011 are greater than 2010," Klassen added. "The most significant risk is the end of fiscal and monetary stimulus in the first half of this year. It will take a lot of steam out of the economy. To me, prudence would dictate waiting until the end of summer to see how things pan out. By then, we will also know the extent of state and local government job losses, which may be significant according to what we are hearing in Texas. I wouldn't want to be signing pricey contracts before then."

How real the recovery feels also seems tied to where respondents were located. Not every market across the country is experiencing diverging conditions. Tom Watson, managing broker of RE/MAX of Spokane-Commercial in Spokane, WA, said he doesn't see Eastern Washington's commercial market improving significantly over the near term.

"Closed sales from both sectors are lagging behind either of the last two year's numbers," Watson said. "It looks like our double dip has begun. Until the residential market smoothes out, little money will be available via traditional commercial sources."

And Paula Greer, an appraiser with Black & Associates in Portland, OR, said the concept of a double dip real estate market implies that values went back up.

"As far as I can tell from statistics here in the Portland market, there may have been a slight hiccup in residential home prices about a year ago. But it was more like a leveling out before they started trending downward again," she said.

"After hunkering down for the last couple of years, the investor segment is cautiously reappearing. From an appraiser perspective, it appears that they are being more selective about properties that they will invest in," Greer said. "This is a function of two factors: banks just aren't as aggressive with their underwriting as they were in the pre-2008 days; and there is a more limited inventory of good quality investment properties available for sale."

"From my work perspective, the biggest impact on the acceleration of the commercial real estate market here in Portland is the re-emergence of banks that are willing to actually part with some of their stockpile of funds and actually start lending again," Greer said. "I think that investors are starting to believe that the tsunami is not going to hit here and that it is time to get back to business as usual."

But the consensus is certainly not unanimous. While some question whether CRE is in recovery, others are seeing a turnaround in the fortunes of housing.

One of those seeing a silver lining to the current housing market is Frank Nothaft, Freddie Mac's chief economist, who said he expects "to see a bit of spring in homes sales activity during the second quarter. Sales contract signings for existing homes were up in February, positioning the market for a bounce up going into the traditional homebuying season."

Nothaft is projecting a 5% increase in 2011 home sales over 2010, on a calendar year basis.

For now, however, the majority of CoStar News readers appear to be taking a less-sanguine view on the housing market. Kevin White, a real estate strategist with the CoStar Group, concurred with the general sentiment that there are significant differences that have "unhitched" housing and commercial real estate at this stage of the economic recovery that will allow them to continue in diverging directions.

"Although the ties between housing and CRE are compelling, there remain important differences," White said. "Households may suffer more psychological scars from the (housing) bust, have more limited access to fresh capital, and be less inclined to appreciate real estate's value relative to other investment alternatives (whose prices have rocketed), all factors that would hinder housing's recovery compared with that of CRE."

"Most important," White added, "although the CRE market has had its share of government intervention (TARP, TALF, PPIP, etc.), these measures were far-less distortive than the homebuyer tax credits, which stabilized the market by pulling demand forward. While the housing correction, having been temporarily suspended, has further to go, the less-inhibited CRE correction has largely run its course."

Gary Tasman, executive director of Commercial Property Southwest Florida LLC in Fort Myers, FL, noted that housing and CRE went into the recession with far different fundamentals.

(please continue reading on page 4)

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3
WELLINGTON MEADOWS APARTMENTS
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Las Vegas, NV
Unpaid Balance: $35,727,405
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6
MIRABELLA APARTMENTS
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2
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7
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5
32,677 SF Retail Property
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STARTING BID: $600,000
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(**Graveyard** *continued from page 2)*

"Traditionally there exists a lag in the commercial real estate market as it relates to the housing market. Commercial real estate typically lags between six and 18 months behind residential," Tasman said. "So it is a natural assumption that if the housing market double-dips, so too will the commercial real estate market."

"However," Tasman added, "given the significant difference in overbuilding between housing and commercial (specifically in the Southwest Florida area) – it is significantly more likely that housing would be a slower market to recover than commercial."

That slower recovery will weigh down CRE's recovery but not drag it down.

"Most commercial brokers in our area are (despite positive data from first quarter) are currently feeling a small lag in prospective lessees and buyers," Tasman said. But "because the overbuilding in commercial real estate was not as exhausted as the overbuilding that occurred in residential, I am optimistic that population growth coupled with lack of construction volume will inevitably absorb excess space and drive rental growth."

What follows are excerpts from additional comments that CoStar received.

THERE'S MONEY FOR BUSINESSES, WHILE PEOPLE WAIT FOR MONEY FOR HOUSING

Commercial is doing better as people are out there starting businesses or expanding businesses; the stronger survived and now grow to provide services to the market with less competition - people are going back to work - even though unemployment stays high. This will lead to additional consumer confidence I would hope as people have money to spend...seems like this will lead us out of this

Housing won't come back until people stay in their homes - instead of moving out and into apartments and are able to get back on their feet with work. If the above commercial trend continues and people can stay in their homes with new jobs, new home sales (and permits for new construction) will increase again instead of people buying the multitude of cheap foreclosed, short sale and underwater homes.

Stuart Thomajan, a venture capitalist with The Chameleon Group in Austin, TX.

DECISIONS OF THE HEAD NOT THE HEART

One quick simple answer is commercial investors could be motivated by inflation concerns and wanting to get cash into real estate before it takes off and residential decisions are driven by individuals, the avoidance of debt, and the fear prices will dip further.

Commercial is a business decision verses an emotional decision for homeowners. An apartment provides shelter just like a single-family home without the risk or capital requirement and personal debt. Quality, well located properties are still occupied with quality tenants paying rent. The poor quality properties are deeply discounted and not selling, as is always the case in a down market, quality sells and the rest wait/hope for a recovery.

Robert L. Muller II, CCIM, director of real estate services at MMA Real Estate Advisors LLC in Atlanta, GA

WAITING FOR UNEMPLOYMENT TO IMPROVE

In my practice, we do residential in Santa Clara County (CA) and we have a commercial project in San Benito County (CA). What we're seeing both in residential and commercial is that everything seems neighborhood and product specific.

In Santa Clara, nice homes in nice areas get multiple offers while average homes in average areas will sit unless priced aggressively.

In San Benito, commercial is at a standstill, and we've lowered prices numerous times without any increase in activity. We keep waiting for unemployment to improve hoping that's what's needed to stimulate this county.

Lee Schmidt, principal of County Property Exchange Inc. in Morgan Hill, CA

PENT UP BUSINESS DEMAND

I think commercial real estate is recovering in selected areas only. There are more investment sales, as the credit markets are opening up again. There are bank-owned properties that are being sold to get them off the balance sheets and plenty of opportunities for investors in distressed properties that are slowly working through the system.

Select office markets, such as New York City are seeing significant increases in leasing activity, but I would not consider it a balanced recovery. If anything is bolstering the commercial real estate markets on the leasing side, I believe it is a combination of pent-up demand from tenants who have been sitting on the sidelines during the recession, and a realization that the dearth of development is causing some availability shortages in spaces of certain sizes and quality, particularly for large tenants.

What worries me most is that this really seems to be a jobless recovery, with many positions gone, never to be replaced. If there is no growth in headcount, there will be no growth in office space needs.

Howard E. Greenbert, principal of Howard Properties Ltd. in White Plains, NY

NECESSITY IS THE MOTHER OF TIMING

Commercial real estate is driven by business; the needs of companies utilizing leased and purchased facilities to run their companies be it office, industrial, warehouse or retail space.

The housing market satisfies personal needs for individuals and families and those needs can be met with homes for sale or lease; and apartments. Families can upsize and downsize both their physical space and quality and by reducing the costs for owning/leasing and operating the household budget. Companies don't always have that flexibility.

A top shelf law firm cannot operate from a "C" quality office building; a hair salon running their business from 1,200 square feet cannot downsize to 500 square feet and still expect to exist.

So the differences between the two sectors are based mainly out of necessity for businesses to continue to operate; and homeowners and tenants ability to downsize in quality, location and size.

Daniel Wm. Hayes, principal of NAI DESCO in St, Louis, MO

CRE HURTS, WHICH IS WHY IT IS A GOOD INVESTMENT

Commercial real estate is not in recovery but simply showing signs of life because capital does not have positive alternatives and needs a place to park while riding-out the current anti-capitalist trends. [Note the price of gold is high and rising and other basic value-holding commodities]. As one forward-looking analyst noted a year ago - people should invest in things that would hurt if you dropped them on your foot [gold, industrial metals, steal, minerals, and real estate].

Large amounts of cash which have poor alternative options and are thus chasing the cream of location and quality to induce a cap rate decline (and corollary rise in prices) but only for the best markets and product.

Todd Zirkle, real estate consultant with The Metis Group LLC in Washington, DC

HOW SOON WE FORGET

What worries me is I specialize in land acquisitions in urban areas of Los Angeles (mainly A locations) to develop mixed-use projects (i.e. residential apartments over retail). What I am finding from not only owners of real estate but from lenders is how soon they forgot what got us in to trouble in the first place – lack of fundamentals. The asking price for land is pretty much back to where it was before the recession.

Marty Shelton, vice president of NAI Capital - Urban Development Group in Los Angeles

CRE WILL PULL HOUSING OUT

Businesses are re-tooling and the market is anticipating that. The expectation is that new jobs will be created as corporate profits rise and companies will need to hire more people in order to keep up with revenue growth. As employment grows it could prop up consumer confidence and demand for housing as employees move to take new jobs.

Kostas Stoilas, associate - industrial property sales and leasing
The Davis Team of Cushman & Wakefield Inc. in Tampa, FL

IT TAKES LONGER FOR THE HOUSING BUYER TO COME BACK INTO THE MARKET

I agree that a double-dip housing recession is currently a tangible risk. Should this risk materializes, I feel the commercial real estate (CRE) will be saved from facing the same fate. Several factors worked (and still work) in favor of the CRE market; the threshold investment required to enter the CRE is much greater than the residential one.

This factor kept a lot of small investors at bay, and allowed entrance only to more sophisticated investors with greater funds or accessibility to funds, and greater accessibility to professional advices. So, higher sophistication level, better capitalization, and easier access to professional advices will save the CRE.

Smaller supply of new CRE also had serious positive impact on the situation, as well as reluctance on the part of banks and financial institutions to foreclose on defaulted properties, opting instead to work out other solutions with the defaulted owners, meant a smaller number of distressed sales.

As soon as the economy starts to improve and gains enough momentum, companies start to hire again, which of course results in a higher demand on CRE. While it will take the recently hired John Doe sometime to restore his savings to a point that would allow him to enter the residential real estate market.

Maurice Salama, principal real property agent of theH
County of Los Angeles Chief Executive Office in Los Angeles, CA

CRE MUCH MORE DISCIPLINED

I was a residential broker in Texas in the late '80s when the market tanked there. The commercial market seems much more disciplined and less emotional. When the overall real estate market first started to teeter this time, the commercial sector didn't go into denial, it accepted the fact fairly early on that hard times were ahead. The commercial market did not get overbuilt this time around. There were enough folks around that remembered the '80's and didn't make that big mistake again. The residential market kept whistling through the graveyard.

R. Dabney Tompkins, brokerage services at CB Richard Ellis **|** *Office Properties in Portland, OR*

Private REIT American Realty Capital Trust Seeking Liquidity Alternatives

While just months away from closing out its ongoing public offering of stock, American Realty Capital Trust Inc., a non-traded REIT with $1.2 billion in net leased real estate investments, announced action this week intended to enhance shareholder value.

The company's advisor, American Realty Capital Advisors LLC, intends to initiate the process of interviewing investment banking firms and other advisory firms to provide its board of directors with recommendations in exploring various strategic actions, including the assessment of various liquidity alternatives.

ARCT commenced its initial public offering in January 2008, and as of this week had raised total gross proceeds of $885.2 million. It has acquired 320 single-tenant, net-leased properties for a total purchase price of $1.27 billion.

Since initiating its stock offering in 2008, the REIT has lost money every year: $9.7 million last year and $4.3 million in both 2009 and 2008.

"We have delivered on what we promised to our investors; distributions paid during the quarter were fully supported by modified funds from operations," Nicholas S. Schorsch, chairman and CEO of ARCT said in announcing the REIT's year-end results April 1. "I am particularly pleased with our team of real estate professionals who have been able to deploy our shareholders' capital quickly and efficiently to take advantage of the tremendous buying opportunities in today's real estate market. We continue to benefit from favorable trends as they relate to acquiring properties at capitalization rates of approximately 8% while we are financing with moderate levels of fixed-rate debt in the mid-4% range."

During the first three months of this year, ARCT acquired 42 properties for $305 million containing approximately 2 million square feet.

"I am proud of the fact that we have less than $20 million of idle cash on our balance sheet today," said Brian S. Block, executive vice president and CFO of ARCT. "Our real estate acquisitions and capital markets teams are executing consistently to allow us to maintain our core discipline of deploying equity raised quickly and efficiently. Such results benefit our shareholders as we maintain our focused approach of ensuring modified funds generated from operations fully support distributions paid."

Pace of Bank Failures Slows, But Distressed CRE Still Taking its Toll

The FDIC sold two failed banks the first actions of this month. City National Bank in Los Angeles acquired substantially all of the assets and deposits of Las Vegas-based Nevada Commerce Bank; and Heartland Bank and Trust Co. in Bloomington, IL, acquired Western Springs National Bank and Trust in Western Springs, IL.

Only three banks failed in March, making the recent pace the slowest since December 2008, when three banks also failed, according to Trepp LLC. While the reasons for failure were varied, CRE loans represented the largest source of nonperforming loans of three March failures and made up a substantial portion of this month's failures.

NEVADA COMMERCE

City National will operate Nevada Commerce Bank's two banking offices that had approximately $145 million in assets as of Dec. 31, 2010. About 31% of those assets ($44.5 million) were tied to distressed commercial real estate assets, including $18.8 million in foreclosed development projects.

Approximately $111 million in assets will be subject to a loss-sharing agreement with the FDIC.

"This cost-effective acquisition of Nevada Commerce Bank underscores City National's commitment to Nevada, and it enhances our ability to serve a greater number of entrepreneurs, professionals and small and mid-size businesses in Las Vegas," said Russell Goldsmith, CEO of City National.

The FDIC estimates that the cost to its Deposit Insurance Fund (DIF) will be $31.9 million.

WESTERN SPRINGS NATIONAL BANK AND TRUST

Western Springs was closed by the Office of the comptroller of the Currency.

The two branches of Western Springs National Bank and Trust went to Heartland Bank and Trust.

As of Dec. 31, 2010, Western Springs had approximately $186.8 million in total assets.

While just 15% of Western Springs' assets were tied to distressed CRE, the bank has a growing portfolio of nonaccrual CRE loans. The bank had lost more than $15 million in the last two years.

The FDIC and Heartland Bank and Trust Company entered into a loss-share transaction on $100.8 million of Western Springs National Bank and Trust's commercial loans. Heartland Bank and Trust Company will share in the losses on the asset pool covered under the loss-share agreement.

The FDIC estimates that the cost to its DIF will be $31 million.

RATE OF FAILURES SLOWS SHARPLY

According to Trepp, for the three failed banks in March, commercial real estate (CRE) loans comprised $44 million (or 55%) of the total $80 million in nonperforming loans. Commercial mortgages made up $27 million or 34% of the total, while construction and land loans comprised $16 million (21%) of the total nonperforming pool.

For the quarter, the total failed bank count was 26, the lowest quarterly count since the second quarter of 2009.

The number of banks on the Watch List remains large, and banks are spending more time on the Watch List, Trepp said.

While the pace of closures has slowed, distress at many banks remains high, and these banks will still be in a position of heightened risk until they either boost capital, improve performance, or both. Failure also remains a possibility for these banks.

According to CoStar Group research at the end of 2010, 10 banks reported that distressed real estate assets made up 30% or more of their total assets.

Bank	City	State	Total Assets ($000)	Total Dis. CRE Assets ($000)	% of Total CRE Dis. To Assets
Builders Bank	Chicago	IL	$306,173	$126,280	41%
Security Exchange Bank	Marietta	GA	$169,374	$62,789	37%
First Security Bank of Nevada	Las Vegas	NV	$106,051	$38,589	36%
First Choice Community Bank	Dallas	GA	$308,453	$110,261	36%
The First State Bank	Stockbridge	GA	$563,746	$184,193	33%
Douglas County Bank	Douglasville	GA	$335,603	$107,374	32%
High Trust Bank	Stockbridge	GA	$196,818	$62,528	32%
Armed Forces Bank	Fort Leavenworth	KS	$2,008,776	$602,223	30%
The First National Bank of Olathe	Olathe	KS	$578,775	$171,851	30%
Liberty Federal Savings Bank	Enid	OK	$133,601	$39,476	30%

Commercial Real Estate Surges, Needs Corporate Hiring To Continue

By: Chris Macke

First quarter commercial real estate market fundamentals continued their improvement over 2010. This will come as no surprise to anyone who understands that commercial real estate demand is derived from activity in the overall economy. As the economy goes, so go commercial real estate fundamentals.

When looking at the change in economic indicators outlined below, the continued improvement makes sense. Just consider:

This time last year unemployment was at 10.2% versus 8.8% today.

Since the February 2010 employment trough, 1.7 million jobs have now been added.
Manufacturing capacity utilization now stands at 74.3%, up from 69.7% in February of 2010.
The S&P 500 has doubled from its March 2009 low.

Maybe the most important indicator is investor confidence. According to Price Waterhouse Coopers' First Quarter 2011 Real Estate survey, it's on the rise.

Clearly there has been an improvement in the national economy, which has translated into improved commercial real estate fundamentals. Now let's look at the specific first quarter results.

OFFICE MARKET

According to CoStar's first quarter reports, the office market saw a positive net absorption of 5.36 million square feet of office space. This marks the fourth consecutive quarter of positive net absorption with almost 35 million square feet added over the last 12 months. For comparison, the previous twelve months saw the market lose 30 million square feet.

Office vacancy rates held steady at 13.4 percent, even in the face of an slight rise in new deliveries.

CoStar's quarterly reports also show that office rental rates turned slightly downward after a fourth quarter rise, which was the first in 10 quarters. With office construction at a record 10-year low, there is no denying that an increase in corporate hiring would accelerate the strengthening of office market fundamentals.

RETAIL MARKET

CoStar is also showing a positive net absorption of 9 million square feet of retail space in the first quarter of this year. A total of 58 million square feet was added during the last 12 months, which is more than triple the amount added in the previous twelve months. Even with major retailers like Borders and K-Mart closing up big box stores around the country, the retail vacancy rates continued their decline, dropping to 7.2 percent, down from the market high of 7.6% in 2009.

Retailers are starting to wise up as construction deliveries resumed their decline, falling 50 percent from their first quarter 2010 level and rental rates continued their decline albeit at a slower pace.

INDUSTRIAL MARKET

CoStar's Q1 Industrial Market Report shows that the first quarter of 2011 saw strong positive net absorption of 27.39 million square feet of industrial space. This is the fourth straight quarter of positive net absorption, with more than 58 million square feet of industrial space being absorbed over the last 12 months. Considering industrial space shrank by 123 million square feet the previous twelve months, this news is a welcome sign that things are picking up in the industrial sector.

CoStar's report also shows that Industrial vacancy rates continued a slow but steady decline, falling to 10 percent, down from their market high of 10.5 percent in 2009. Also industrial deliveries are down 56 percent from their first quarter 2010 level.

Over the last 12 quarters, 11 have seen a decline in the amount of new space delivered. This is not surprising considering the nature of industrial real estate and its ability to quickly shut off new supply. Rental rates continued their decline albeit at a much slower pace than for the same period last year.

As with office and retail, projects under construction are at a record 10-year low due to an increase in corporate spending would accelerate the strengthening of industrial market fundamentals.

All of this analysis through CoStar's quarterly reports begs the the next logical question: Will this improvement continue and if so at what pace?

Both the sustainability of the current recovery, which has been occurring for more than a year in all property types, and future strength of the recovery, depends on the levels of corporate hiring and spending.

If corporations increase their rate of hiring and spending, then the commercial real estate recovery will not only be sustainable but also will strengthen. If corporations hold hiring levels steady and do the same with their spending levels, then the sustainability of the recovery will be more dependent on other factors such as the impact of rising oil prices on consumer spending.

Corporations hold the key to the future of commercial real estate's market fundamentals.

Chris Macke is a senior real estate strategist for the CoStar Group and a former vice president with GE Real Estate. He has 20 years experience in commercial real estate development, acquisition, leasing and financing.

U.S. CMBS Delinquencies Begin to Stabilize on March Decline

The climb towards an expected 10% delinquency rate for U.S. CMBS has slowed, according to the latest index result from Fitch Ratings.

Late-pays retreated two basis points (bps) to end March at 8.74%, representing the first decrease since October 2010 (when the Extended Stay America loan was resolved).

"Preliminary indications on year-end 2010 financials that have come in thus far are somewhat encouraging," said Managing Director Mary MacNeill. "Net operating income declines have slowed or reversed, which coupled with stronger market liquidity and new CMBS issuance should continue to help slow the rise in CMBS delinquencies going forward."

Despite the slower pace, delinquencies, which declined across four of the five major property types last month, will likely continue to rise in 2011, albeit at a slower rate. Fitch Ratings has projected that the index will peak at roughly 10%.

In March, approximately $1.8 billion of resolutions from the Index offset the roughly $1.6 billion of new delinquencies.

This translated into small gains in each property type excluding office. Current delinquency rates by property type are as follows:

- Multifamily: 17.42% (from 17.58%)
- Hotel: 14.12% (from 14.33%)
- Industrial: 9.38% (from 9.40%)
- Retail: 6.89% (from 7.04%)
- Office: 5.95% (from 5.85%)

In March, only two loans greater than $100 million were added as new delinquencies. In fact, both loans had previously moved into and out of the Index.

In its March analysis, Fitch Ratings removed from its list of delinquent loans one large portfolio loan – the $967 million CNL Hotel & Resorts Inc. Resort Portfolio – that was classified as non-performing matured in its monthly remittance report. Fitch Ratings reclassified the loan as performing matured after contacting the special servicer, who confirmed that the borrower continues to remit monthly payments post-maturity.

Real Money: Private Equity Fund-Raising Rebounds

Driven by a small number of funds that held large closes, private equity fund-raising has rebounded in 2011.

According to figures from Dow Jones LP Source, U.S. private equity funds secured $31.6 billion for 89 funds during the first quarter, more than double the $13.5 billion raised for 81 funds during the same period last year. All sectors except mezzanine raised more capital than the same period last year.

"In 2010, many private equity firms focused on trying to return capital and those efforts are starting to bring their investors back to the party," said Laura Kreutzer, managing editor of Dow Jones Private Equity Analyst. "But limited partners are still like bouncers at an exclusive night club. They're only letting the best looking groups behind the velvet rope. Everyone else still has to struggle for their attention."

CoStar Group, which tracks the real estate fund-raising activity of more than 2,600 public and private entities on an ongoing basis, is showing that pooled investment funds including private equity and hedge funds reported raising $10.46 billion in the first quarter of this year for real estate-related investments.

Clarion Lion Properties Fund LLC, a core, U.S.-only, diversified real estate fund sponsored by ING Clarion, reported the largest amount raised in the first quarter – raising $2.1 billion since February of last year.

Other fund sponsors that reported in the first quarter raising more than $1 billion were: UBS Realty Investors; Shorenstein Properties; Morgan Stanley Real Estate and Pacific Investment Management Co. (PIMCO).

Lease Cancellations: Borders Looking To Cut Rent or Cancel Leases

Already having received bankruptcy court approval to close 226 superstores in an attempt to return to profitability, Borders has begun filing lease cancellation requests on a number of additional properties. The bookstore retailer has filed 12 such requests in the last three weeks seeking to cancel leases on more than 50 locations.

As of Jan. 29, Borders operated 642 stores, under the Borders, Waldenbooks, Borders Express and Borders Outlet names, as well as Borders-branded airport stores in the United States, of which 639 stores are located in the United States and 3 in Puerto Rico.

As of Feb. 11, Borders employed 6,100 full-time employees, approximately 11,400 part-time employees, and approximately 600 contingent employees.

For the fiscal year ended Jan. 29, Borders recorded net sales of $2.3 billion and a net loss of $168.2 million.

Borders is party to more than 650 unexpired real property leases for their retail stores. During the 2-year period prior to filing chapter Borders obtained rent concessions of approximately $38.3 million at 154 locations and closed 35 unprofitable stores.

Even during bankruptcy it is continuing that strategy and retained DJM Realty Services as real estate consultants to provide lease modification and mitigation and other real estate services. A substantial part of DJM's compensation stems from the amount of rent reductions it can obtain from landlords.

Borders Location	Landlord	Orig. Lease Exp.
1715 Rock Rd. & 13th St. Wichita, KS 67206	Agree LP	11/10/2015
3000 184th Street SW Suite 910 Lynnwood, WA 98037	Alderwood Mall LLC	1/31/2020
Kendall Mall 8811 SW 107th Ave. Miami, FL	American Realty Advisors; (subtenant: Staples Office Super Stores)	1/31/2016
4650 Great Northern Blvd. N. Olmsted, OH	B & G Properties; (subtenants: Petland Old Dogs New Tricks; Sleep Outfitters (Innovative Mattress Solutions))	3/31/2015
605 Ernest W. Barrett Parkway, Building 400 Kennesaw, GA 30144	BBBP Associates LLC	1/31/2023
2403 S. Stemmons Suite 100 Lewisville, TX 75067	Centcom/Vista Grove LP	1/31/2017
870 N. 54th Street Chandler, AZ 85226	Chandler Pavilions c/o Grubb & Ellis Management Services	2/28/2014
1700 Maple Avenue Evanston, IL 60201	Church Street Plaza LLC c/o AHC Management	5/31/2023
3600 McKinney Avenue Dallas, TX 75204	Cityplace Co.	1/31/2025
2110 Bellflower Boulevard Long Beach, CA 90815	CP Venture Two LLC c/o Cousins Properties	1/31/2017
800 W. 78th Street Richfield, MN 55423	CSM Shops Inc. c/o CSM Corp.	4/30/2017
2520 S. Hurstborne Gem Ln. Louisville, KY 40220	CTJ-Louisville LLC	1/31/2024
1705 Mall of Georgia Blvd. Suite 200 Buford, GA 30519	DDRTC Marketplace at Mill Creek LLC c/o DDR	1/31/2020
1605 East-West Connector Road Austell, GA 30106	East West Commons LLC c/o Barnhart Guess Properties	1/31/2020
1260 Old Country Road Westbury, NY 11590	Equity One (Northeast Portfolio) Inc.	1/31/2019
10776 Trinity Parkway Stockton, CA 95219	Excel Trust	1/31/2020
Paramus Towne Square 240 Route 17 North Paramus, NJ	Faber Brothers Inc. c/o Gabrellian Associates; (subtenant: Golfsmith)	1/31/2016
9565 Mentor Avenue Mentor, OH 44060	First Interstate Mentor Centers LP c/o First Interstate Perperties	1/31/2020
Raceway Mall 3710 Route 9, Suite 2318 Freehold, NJ 07728	Freemall Associates LLC	1/31/2018
356 Santana Row, Suite 1030 San Jose, CA 95128	FRIT San Jose Town & Country Village LLC c/o Federal Realty Investment Trust	11/30/2022
6401 E. Lloyd Expressway Suite 1 Evansville, IN 47715	General Auto Outlet of Evansville LLC & L&S Partnership of Evansville LLC c/o Goodman Management	1/31/2023
404-101 East Six Forks Road Raleigh, NC 27609	Greenway Creekside LLC c/o Hunter & Associates	1/31/2020
Gulf Coast Town Center 10037 Gulf Center Drive Fort Myers, FL 33913	Gulf Coast Town Center CMBS LLC c/o CBL & Associates Management Inc	3/31/2017
Holyoke Mall 50 Holyoke St., Space J312 Holyoke, MA 01041	Holyoke Mall Co.	1/31/2018
1361 S. Alma School Road Mesa, AZ 85210	Inland Western Mesa Fiesta LLC	3/31/2014
101 West Wisconsin Avenue Milwaukee, WI 53203	Ivory Retail/ Office Operating Co.	1/31/2023
400 S. 4th Street Louisville, KY 40202	Louisville Galleria LLC c/o Cordish Co.	1/31/2025
7135 East Camelback Rd Space 140 Scottsdale, AZ 85251	Metzler I Scottsdale Waterfront LP c/o Associated Asset Management	1/31/2021

Borders Location	Landlord	Orig. Lease Exp.
1320 Mid Rivers Mall St. Peters, MO 63376	Mid Rivers Mall LLC c/o CBL & Associates	1/31/2022
2088A Interchange Road Erie, PA 16509	Miller-Millcreek LLC	5/15/2022
880 W. State Road 436 Altamonte Springs, FL 32714	National Retail Properties Inc.	1/31/2018
1820 South Road, Suite 110 Wappingers Falls, NY 12590	Nine Mall Investors LLC	1/31/2019
2520 Sycamore Road DeKalb, IL 60115	Northland Plaza Improvements LLC c/o DLC Management Corp.	1/31/2022
3605 High Point Rd Greensboro, NC 27407	O.W. Retail Center - Greensboro LLC c/o Carolina Holdings Inc.	1/31/2016
925 Blossom Hill Road Suite 1741 San Jose, CA 95123	Oakridge Mall LP	1/31/2019
9441 W. Colonial Drive Ocoee, FL 34761	Ocoee Properties LP	1/31/2022
20 City Boulevard, W. Orange, CA 92868	Orange City Mills LP c/o The Mills Corp.	1/31/2014
75-1000 Henry Street Kailua-Kona, HI 96740	Pacifica Realty Management	1/31/2014
6081 Center Dr, Suite 118 Westchester, CA 90045	Passco Hughes Promenade S LLC	3/31/2016
1390 W. University Avenue St. Paul, MN 55104	Paulbrook LLC c/o Kin Properties Inc.	3/31/2016
400 Post Street San Francisco, CA 94102	Ponte Gadea California LLC	11/30/2014
Park 1539 East 53rd Street Chicago, IL	Roy D. Gottlieb & Associates	1/31/2024
1051 W. Sand Lake Road Orlando, FL 32809	Sand Lake Properties LP	3/31/2016
100 Main Street North Space 17 Southbury, CT 06488	Southhaven Associates LLC	5/31/2023
9500 South IH 35 Service Rd. Southpark Meadows, Suite F Austin, TX 78748	SP Meadows Central Ltd.	5/31/2022
3338 St. Charles Avenue New Orleans, LA 70155	Stirling Forterra LLC c/o Stirling Properties Inc.	1/31/2024
2709 N. Mesquite Drive Mesquite, TX 75150	Stoneridge Mobile Home Park Ltd.	1/31/2023
732 Americana Way Glendale, CA 91210	The Americana at Brand LLC c/o Caruso Affiliated	1/31/2019
161 N. Webber Bolingbrook, IL 60490	The Landings Shopping Ctr. LLC c/o CB Richard Ellis	1/31/2022
4718 N. Broadway Ave Chicago, IL 60640	Uptown Goldblatt's Retail LLC c/o Joseph Freed & Assoicates Inc.	4/30/2024
2421 Cranberry Highway Suite 460 Wareham, MA 02571	W/S Wareham Properties LLC c/o S.R. Weiner Associates	1/31/2019

Pier 1 Ramping Up Internet Sales Venture

Pier 1 Imports Inc. is pursuing a 3-year growth plan to drive sales – a plan that includes launching an online venture.

The Fort Worth, TX-based company's approved plan includes investing in the acceleration of e-Commerce initiatives, existing stores improvements, expansion of the store portfolio, and development of infrastructure and technology to enhance business processes and efficiencies throughout the entire organization.

The company plans to invest $200 million in the next three years in these initiatives.

"We are excited that the 3-year plan includes moving up the timetable for e-commerce and we expect to be selling online in early summer of 2012," said Alex W. Smith, president and CEO of Pier One. "In stores, our investments will include a rollout of new fixtures, lighting upgrades, and other enhancements to provide a great in-store shopping experience for our customers and increase sales productivity."

"Within the next three years, our goal is to achieve sales of $200 per retail square foot and drive our operating margin to at least 10% of sales, and within five years to have an online business that contributes at least 10% of revenues," Smith said.

The company launched in-store merchandise availability on its website, Pier1.com, in October 2010, and has seen a significant increase in incremental visits to its website since the introduction of this new functionality.

Smith said the company remains focused on increasing sales productivity and maximizing profitability of its existing store portfolio.

In the next three years, the company's store improvement initiatives will impact approximately 90% of the existing stores and include capital investments in new store fixtures, store remodels and other leasehold improvements.

The company's growth plan also includes investing in the expansion of its existing store portfolio from 1,046 Pier 1 Imports stores today to 1,100 Pier 1 Imports within five years. The company currently plans to open approximately 80 stores and close approximately 30 stores as part of its net new store growth initiative. These 80 store openings will consist of both openings in new markets as well as relocations within existing markets. This year, that plan calls for opening 12 stores and closing seven.

Lease Down: Cisco 'Flip' Flops on Consumer Business

As part of the company's comprehensive plan to align its operations, Cisco will exit the Flip Video portion of its consumer businesses and realign the remaining consumer business to support routing, switching and services, collaboration, architectures, and video.

Cisco obtained the camera division just two years ago when it bought Pure Digital Technologies Inc. at 30 Maiden Lane in San Francisco for $590 million.

As part of its plan, Cisco will:

Close down its Flip business and support current FlipShare customers and partners with a transition plan. It expects this action will result in a reduction of 550 employees.

"We are making key, targeted moves as we align operations in support of our network-centric platform strategy," said John Chambers, Cisco chairman and CEO. "As we move forward, our consumer efforts will focus on how we help our enterprise and service provider customers optimize and expand their offerings for consumers, and help ensure the network's ability to deliver on those offerings."

Cisco expects to recognize restructuring charges $300 million relating to the changes.

Cisco's Consumer Product Main U.S. offices are at:

- 120 Theory Drive in Irvine, CA;
- 185 Berry St., Suite 6500 in San Francisco, CA; and
- 1201 Third Ave. in Seattle, WA

Upcoming Corporate Facility Closures & Layoffs

Company	Address	Closure or Layoff	Owned or Leased	No. Impacted	Impact Date	CoStar ID No.
Ben-Ezra & Katz	2699 & 2901 Stirling Road, Ft. Lauderdale, FL	Unknown	Leased	54	5/25/2011	378711, 378708
Amphenol Sine Systems	22501 Highway 27, Lake Wales , FL	Unknown	Owned	31	6/30/2011	4455825
Direct Airline Services	4030 NW 29th St., Miami, FL	Unknown	Leased	30	5/1/2011	14619
Codman Neurovascular	14201 NW 60th Ave., Miami Lakes, FL	Unknown	Leased	19	6/1/2011	6989748
Northstar Aerospace Inc.	1819 W. 38th St., Anderson, IN	Closure	Leased	48	6/24/2011	71468
Ruan Transport Corp.	910 W. Washington St/, Decatur, IN	Closure	Leased	58	6/1/2011	6372600

Company	Address	Closure or Layoff	Owned or Leased	No. Impacted	Impact Date	CoStar ID No.
Lafayette Life Insurance Co.	1905 Teal Road, Lafayette, IN	Closure	Owned	159	7/1/2011	
North Shore Linen	800 Chettic Ave., Copiague, NY	Layoff	Leased	45	Unknown	188293
ESPN Magazine	19 E. 34th St., New York, NY	Closure	Leased	47	10/1/2011	157854
New York Medical College at Metropolitan Hospital Center	1901 First Ave., New York, NY	Closure	Leased	312	6/30/2011	
Louis Lasky Memorial Medical and Dental Center	63 W. 38th St., New York, NY	Closure	Leased	34	6/30/2011	158148
Phipps Houses Services for NY Presbyterian Hospital	435 E. 70th St. & 600 W. 165th St., New York, NY	Closure	Leased	154	6/20/2011	
Phipps Houses Services for NY Presbyterian Hospital	600 W. 165th St., New York, NY	Closure	Leased	29	6/20/2011	
MF Global Inc. - Pioneer Business Group	1 North End Ave., New York, NY	Closure	Leased	25	5/1/2011	160820
The Children's Aid Society	105 E. 22nd St., New York, NY	Layoff	Owned	57	6/30/2011	159029
Priority Production Services, LLC	42 West 38th Street, Suite 503, New York, NY	Closure	Leased	179	6/30/2011	158097
Community General Hospital	4900 Broad Road, Syracuse, NY	Closure	Owned	1,018	7/1/2011	6709735
West Valley Environmental Services	10282 Rock Springs Road, West Valley, NY	Closure	Leased	257	6/30/2011	
West Valley Environmental Services	9030 Route 219, West Valley, NY	Closure	Leased	65	6/30/2011	
Wells Fargo	2208 Highway 21, Bedford, TX	Closure	Leased	67	5/22/2011	519418
Best Buy - Dealtree	609 Enterprise Drive, Flower Mound, TX	Closure	Leased	150	5/20/2011	672599
Palm Harbor Homes	3700 Kyle Crossing, Kyle, TX	Closure	Owned	129	6/3/2011	1559259
Wells Fargo and Co.	4101 Wiseman Blvd., San Antonio, TX	Closure	Owned	77	5/22/2011	958843
Verizon Wireless	244 Clearfield Ave., Virginia Beach, VA	Closure	Leased	270	6/1/2011	1307385
Aerial Co.	2300 Aerial Drive, Marinette, WI	Layoff	Owned	87	Immediately	1307651
Dana Holding Corp.	11500 W. Brown Deer Road, Milwaukee, WI	Layoff	Owned	35	Immediately	1274253
Piggly Wiggly Midwest	525 E. Murdock St., Oshkosh, WI	Closure	Leased	46	5/21/2011	
Piggly Wiggly Midwest	5201 Washington Ave., Racine, WI	Closure	Leased	80	5/21/2011	727316
Piggly Wiggly Midwest	3900 Erie St., Racine, WI	Closure	Leased	78	5/21/2011	1158882
Life Link III	712 Lincoln Drive, St. Croix Falls, WI	Layoff	Owned	20	6/30/2011	
The Spancrete Group	1600 E. Main St., Waukesha, WI	Closure	Owned	45	5/30/2011	7853900
Nationwide Life	400 Westwood Drive,	Closure	Leased	41	6/2/2011	7567714

Company	Address	Closure or Layoff	Owned or Leased	No. Impacted	Impact Date	CoStar ID No.
Insurance Co	Wausau, WI					

Watch List: Recent Appraisal Reductions

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

Property	Address	Property Type	End Sched. Bal.	App. Red. Amnt.; App. Red. Date	App. Value; App. Date	CMBS; Special Servicer
Ritz Carlton Bachelor Gulch	0130 Daybreak Ridge, Avon, CO	Lodging	$60,754,258	$35,949,930; 3/11/2011	$30,200,000; 11/22/2010	LB-UBS 2007-7; LNR Partners
Greenhouse on Holcomb Bridge	8520 Holcomb Bridge Road, Roswell, GA	Multifamily	$23,704,469	$7,967,496; 3/11/2011	$19,100,000; 6/15/2010	LB-UBS 2007-6; Midland Loan Services
Dolce Norwalk	32 Weed Ave., Norwalk, CT	Lodging	$23,104,412	$11,303,169; 3/11/2011	$16,000,000; 8/20/2010	LB-UBS 2007-6; Midland Loan Services
Soundview Marketplace	10 Shore Road, Port Washington, NY	Retail	$20,283,174	$5,081,243; 3/11/2011	$29,500,000; 9/20/2007	LB-UBS 2007-7; LNR Partners

Property	Address	Property Type	End Sched. Bal.	App. Red. Amnt.; App. Red. Date	App. Value; App. Date	CMBS; Special Servicer
Highland Parc	1113 Powers Ferry Place, Marietta, GA	Multifamily	$20,054,730	$3,756,296; 3/11/2011	$17,200,000; 6/15/2010	LB-UBS 2007-6; Midland Loan Services
Waters Edge Apartments	800 Broward Road, Jacksonville, FL	Multifamily	$15,715,578	$9,977,504; 3/11/2011	$8,600,000; 2/4/2010	LB-UBS 2007-7; LNR Partners
The Villas Apartments	1709 1710 & 1718 S. Jentilly Lane, Tempe, AZ	Multifamily	$12,000,000	$8,641,443; 3/11/2011	$5,250,000; 3/2/2010	LB-UBS 2007-7; LNR Partners
Hampton Inn Memphis Southwind	3579 Hacks Cross Road, Memphis, TN	Lodging	$11,053,284	$3,595,326; 3/11/2011	$9,130,000; 3/16/2010	LB-UBS 2007-6; Midland Loan Services
Paradise Vista Apartments	7102 N. 43rd Ave., Glendale, AZ	Multifamily	$11,051,739	$7,691,779; 3/11/2011	$4,765,000; 1/25/2011	LB-UBS 2007-6; Midland Loan Services
Thunderbird Square	3507-3555 W. Thunderbird Road; 13616 N. 35th Ave., Phoenix, AZ	Retail	$7,200,000	$4,094,162; 3/11/2011	$4,000,000; 5/5/2010	LB-UBS 2007-6; Midland Loan Services
Liberty Gray Plaza	6225 - 6255 Lake Gray Blvd., Jacksonville, FL	Warehouse	$5,943,201	$1,487,733; 3/11/2011	$8,120,000; 7/19/2007	LB-UBS 2007-7; LNR Partners
The Villas	6156 South Loop East, Houston, TX	Multifamily	$5,750,000	$3,495,524; 3/11/2011	$2,930,000; 8/16/2010	LB-UBS 2007-7; LNR Partners
South City Center	4830-4858 S. Broadway, Wichita, KS	Retail	$5,347,942	$1,549,386; 3/11/2011	$4,500,000; 9/13/2010	LB-UBS 2007-6; Midland Loan Services
The Shoppes at Orange Grove	3805 W. River Road, Marana, AZ	Retail	$4,880,817	$2,887,465; 3/11/2011	$2,650,000; 8/16/2010	LB-UBS 2007-7; LNR Partners
Skyline Building	2600 9th St. North, St. Petersburg, FL	Office	$3,000,000	$1,760,735; 3/11/2011	$1,520,000; 10/20/2010	LB-UBS 2007-6; Midland Loan Services
Hidden Creek Apartments	6000 Jaycox Road, North Ridgeville, OH	Multifamily	$2,219,132	$1,371,689; 3/11/2011	$1,050,000; 10/29/2010	LB-UBS 2007-6; Midland Loan Services
Gateway Retail	2010-2016 August Drive; 68 Briggs Drive, Mansfield, OH	Retail	$2,203,716	$2,017,909; 3/11/2011	$600,000; 10/1/2010	LB-UBS 2007-6; Midland Loan Services
Merrick Crossing	2008 Merchant Drive, Richmond, KY	Retail	$1,970,230	$703,972; 3/11/2011	$1,520,000; 10/20/2010	LB-UBS 2007-6; Midland Loan Services
335 Oxford Street	335 Oxford St., Dover, OH	Office	$1,525,172	$874,743; 3/11/2011	$830,000; 9/7/2010	LB-UBS 2007-6; Midland Loan Services
Crossroads Shopping Center	754 San Souci Parkway, Hanover, PA	Retail	$1,406,081	$600,428; 3/11/2011	$1,050,000; 6/1/2010	LB-UBS 2007-7; LNR Partners