

THE WATCH LIST



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FEBRUARY 11, 2010

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

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Betting on Bad Debt a Growing Investment Play

With Distressed CRE Debt Mounting, Investors Are Scouring Loan Books for Good Property Deals

By: Mark Heschmeyer

With most if not all facets of commercial real estate investment mired in the dumps, one area is burgeoning -- the market for distressed debt. Indeed, investors say the distressed debt market is more active now than it has ever been, and still nowhere near where players see it going over the next couple of years.

Spurring the action is new paradigm in property acquisition. Debt buyers are keen on the notion that properties can be acquired at significant discounts to their loan values - offering even bigger savings than the cost of purchasing a property outright.

Examples of this new arrangement are abundant with AION Partners, a real estate private equity company in New York, being just one. AION is utilizing this loan-to-own strategy as a starting point for increasing its ownership portfolio. It recently purchased a portfolio of eight loan-to-own assets in opportunistic markets throughout the Sunbelt with a value in excess of \$110 million. Since acquiring the loans, AION Partners has already foreclosed, or taken a deed in lieu on five of these non-performing first mortgage loans and plans to take control of the remaining properties in 2010.

The eight loans purchased in 2009 include: a 234-unit multifamily complex in North Miami, FL; a 192-unit multifamily property in West Palm Beach, FL; a 178-unit assisted living facility in Arlington, TX; a 287,000-square-foot distribution warehouse in Chester, NY; a 150-unit multifamily complex in Phoenix, AZ; a 196-unit multifamily property in Tucson, AZ; a 480-unit multifamily community in Atlanta, GA; and a 220-unit multifamily building in Charlotte, NC.

"We are committed to building a large, national portfolio of multifamily assets and are executing this strategy through the acquisition of distressed loans and properties and then employing our experience as investors, developers and managers to stabilize and build value," said Michael Betancourt, principal of AION Partners, which also owns office, retail and condominium properties in major cities including New York, Washington, DC, and Los Angeles. "If our success during 2009 is any indication of things to come, we anticipate activity in 2010 both on the investment and asset management fronts to surpass our initial projections for our partners and ourselves."

The bulk of the distressed debt sales in 2009 were in the CMBS arena and from the Federal Deposit Insurance Corp. and industry participants expect those numbers to continue growing this year.

The FDIC alone sold about 3,500 commercial real estate loans with a book value of more than \$6.1 billion last year; that compares to commercial real estate loans sales in 2008 of just \$153 million. Nonperforming loans went for 37 cents on the dollar last year but November and December 2009 sales prices coming in closer to 30 cents. Performing loans sold for about 57 cents on the dollar, but with the most recent sales coming in at 44 cents.

Also, the FDIC has a growing portfolio of bad loans to deal with as regulators are closing banks in record numbers.

According to analysis by Property and Portfolio Research (PPR), a CoStar Group subsidiary, as commercial real estate fundamentals continue to deteriorate through 2010, banks with large exposure to the commercial real estate sector will face increased pressure on their balance sheets. FDIC guidelines suggest that a bank whose commercial real estate holdings exceed 300% of capital is "overexposed" to the sector. Based on that metric, PPR says there is no shortage of candidates that the FDIC could seize in 2010. As of the end of the third quarter 2009, more 1,200 banks had commercial real estate exposure of greater than 300% of capital, and 500 of these banks had exposure greater than 400% of capital. The assets of those banks total approximately \$650 billion.

So as far as the growth in the amount of debt the FDIC can dispose of, Steve Miller, director of debt research and risk management at PPR, says it is limited only by the FDIC's ability to deal with the growing volume of distressed financial institutions.

CMBS loan liquidations were averaging about \$108 million a month in 2008 and last year the average jumped \$182 million with November's totaling hitting \$255 million and December's ballooning to \$585 million, according to CMBS bond rating agency Realpoint. Loans were being liquidated at losses near 66%.

In addition, the rate at which liquidated or resolved CMBS credits are replenished by newly delinquent loans is growing and remains a high concern, especially regarding further growth in the foreclosure and REO categories (evidence of additional loan workouts and liquidations on the horizon for 2010).

To the selling side of the equation, industry participants also expect to see heretofore reluctant community and regional banks begin to dispose of more of their distressed commercial real estate assets.

"The secondary market for buying loans is a crowded space right now," said Barry C. Smith, president of LoanSaleCorp.com in Scottsdale, AZ. "There are many groups seeking deals, but transactions (other than the FDIC sales) actually taking place are not as great as one might think. Bid / ask spreads are still wide, but we do see things narrowing somewhat."

"January was interesting; it is apparent that both buyers and sellers are ready to get things going after a dismal 2009," Smith said. "We see good momentum in the market currently and we are happy to report that the community and regional banks we deal with seem to be more interested in actually doing something proactive. This contrasts with what we saw in 2009. Some banks are starting to come out of their Zombie like state and explore the disposition of identified problems. This is an encouraging sign for the market."

Bill Looney, president of loan sales at DebtX in San Francisco, said the market for commercial real estate debt is as active as he has seen it in 10 years.

"That's a function of weakening conditions in the commercial real estate market and a recognition among financial institutions that they need to actively manage their portfolio to reduce risk and protect the bottom line," Looney said. "Many institutions realize that a loan sale can expeditiously dispose of a loan at fair market value. By selling, rather than holding onto the loan in workout, institutions can remove the headwind from their balance sheet and get back to the business of making profitable loans again."

In addition to selling a significant volume of non-performing loans, Looney said he also expects to sell a fair amount of performing debt start coming to market.

New York-based Mission Capital Advisors conducted \$9.2 billion in loan sales last year including \$571 million of CMBS loan sales, a 77% increase year over year versus 2008.

"We see the market as extremely active, with the most active sellers being the healthier community and regional banks who have successfully raised capital and nearly all special servicers (regardless of financial condition)," said William David Tobin, principal of Mission Capital Advisors. "Mission's commercial loan sale business was up 57% in 2009 versus 2008 in terms of balance offered. We expect a similar increase in 2010."

"The most active buyers are localized operators teamed with high net worth individuals or groups of individuals, with a strategic use for the property (and accordingly, a price advantage over strictly financial buyers)," Tobin said. "The second most active buyer profile is \$50 million to \$500 million private equity / high net worth investment funds."

In terms of buyers, Bill Looney said DebtX is seeing a lot of bidding and purchasing by opportunity funds, private equity funds and hedge funds.

"In addition, we're seeing a number of equity buyers who previously owned property, but have been in cash looking to get back in," Looney said. "Because many distressed properties are mired in default or are unable to service their debt, some equity players are seeking to re-enter the property market by purchasing the loans. Finally, we're seeing local players, such as community banks, selectively buying loans. Community banks often have a local market advantage because they are tied so closely to their communities."

Barry Smith at LoanSaleCorp.com said the major buying activity presently is in the sub- and nonperforming loan space. Buyers are not showing a clear for property types but that clearly loans in the major metropolitan markets are of most interest.

Ken Cohen, chairman and CEO of The Mortgage Acquisition Co. in San Francisco, which has been active buyer in the capital markets since 1990, said the current market is tremendously active and is going to stay active.

"As a buyer we look at performing and nonperforming loans, although right now we're seeing many more nonperforming situations as borrowers are starting to miss payments," Cohen said. "We look at a lot of property types, but we stay away from land loans and major lease up issues - empty retail, big box office, big box anything."

In terms of pricing, Cohen said he is looks at the underlying cash flow of the property and strength of the sponsor backing the loan.

Largest Buyers of FDIC CRE Loans in 2009

Buyer	No. of Loans	Book Value	Sales Price	Discount
Northwest Investments LLC	101	\$1,229,000,000	\$551,000,000	45%
LNV Corp.	759	\$382,372,661	\$234,783,465	61%
Matrix Advisors	203	\$166,635,930	\$112,351,876	67%
AgriFirst Lending LLC	254	\$157,638,256	\$82,751,919	52%
Celtic Bank Corp.	379	\$89,785,040	\$42,123,997	47%
GSFBE LLC	10	\$60,741,264	\$12,573,442	21%
Atlantic National Trust LLC	101	\$52,632,030	\$22,970,367	44%
RalRon Capital Corp.	223	\$35,801,885	\$12,266,233	34%
National Loan Acquisitions	50	\$31,622,276	\$17,846,183	56%
Stonegate Bank	38	\$31,003,752	\$18,930,097	61%

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CRE Fundamentals Will Continue To Drag on CMBS, Financial Institutions

The U.S. structured finance market for issuances except commercial mortgage backed securities should likely maintain positive momentum and continue to stabilize in 2010, according to a new report from Standard & Poor's Ratings Services.

According to the report, government support through programs such as the Term Asset-Backed Securities Loan Facility (TALF), the Federal Reserve's mortgage purchase program, and tax credits for homebuyers increased liquidity and tightened spreads for most structured finance asset classes -- namely mortgages, auto loans and leases, and credit cards. This government support effectively lowered funding costs and replenished liquidity in the capital markets.

However, not every asset class benefited. The commercial mortgage-backed securities (CMBS) market struggled with increasing delinquency rates, maturity defaults, and loss severities last year, and S&P said it did not expect much improvement in CMBS credit performance in 2010. Therefore, it said it was maintaining a negative outlook on CMBS, with downgrades likely to continue to exceed upgrades.

However, there was some interest from investors in new-issuance CMBS and corporate borrowers using CMBS for their financing needs in late 2009. Given the dynamics of the commercial property markets, S&P said it expects the CMBS new issuance market will continue to experience a slower recovery than other structured asset types.

Several factors still threaten the recovery of the wider structured finance market this year. High unemployment remains a concern through 2010 and will continue to put pressure on commercial real estate fundamentals as commercial real estate tends to lag the overall economy and will in turn pressure CMBS credit performance. Persistent unemployment is likely to hurt both consumer confidence and demand for housing, and also makes it

harder for borrowers to pay back their residential and commercial mortgages, auto loans and leases, credit cards, and student loans.

Commercial real estate is also expected to be a problem for U.S. banks, S&P reported this past week. Real estate exposures could trigger substantial losses for the financial system during the current economic cycle, the agency said. Elevated commercial real estate (CRE) exposure has driven many bank downgrades in the past two years, particularly of regional banks or finance companies with outside exposures.

"Even though most highly exposed banks with weaker balance sheets are already rated below investment grade, more downgrades are possible; indeed, approximately 75% of the rated banks with the largest exposure to CRE carry negative outlooks," said Standard & Poor's credit analyst Tanya Azarchs.

On a more positive note from a ratings perspective, even though many of the rated banks could suffer heavy losses, S&P said believe that their capital is in most instances sufficient for them to pull through, as long as the losses are realized over a few years rather than taken at once, and as long as liquidity can be maintained.

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JONES LANG LASALLE
Real value in a changing world

Survey: Sentiments of CRE Execs Are Better, But By No Means Good

By: Randy Drummer

The outlook of commercial real estate executives interviewed by the Real Estate Roundtable for its first-quarter Sentiment Index can pretty much be summed up by two responses: "We're at least a heck of a lot better off now than we were a year ago," and "Things will be slow to recover because growth in the economy and jobs takes time. Jobs drive fundamentals."

A year ago, as the industry looked at the smoldering wreckage of the financial crisis and its key players, the Roundtable's overall Sentiment Index -- a combination of executives' feelings about present and future conditions -- stood at 38. The first-quarter 2010 index is up to 73, which is also an increase over the fourth quarter's 63.

While the index shows that confidence in market conditions may be on the mend, the more than 110 industry leaders interviewed for the survey remain guarded in their assessments of the halting recovery, noting that occupancies, rents and other fundamentals are still declining and net operating income (NOI) continues to erode for office buildings, shopping malls, warehouses, hotels, and apartments.

Jeffrey DeBoer, Roundtable president and CEO, called for government and bank policies that will drive job growth and equity investment in real estate and restart the secondary market by encouraging asset value stabilization, market transparency and clearer underwriting practices that will help banks unload distressed assets from their books and resume lending to both large and small businesses.

"The sense of overall gloom that prevailed one year ago has eased. Credit markets have thawed somewhat and that is obviously good," DeBoer said.

Many respondents said an interest rate hike to ward off inflation would undermine the recovery. Others predicted that lenders will continue to extend loan maturities to avoid forced sales and foreclosures, particularly for high-quality assets struggling to perform in the distressed market with little ability to refinance.

"Any asset that can service a reasonable portion of the debt will get time. Banks remember the mid '90's when private equity firms got rich off of them," one executive noted. Class B assets are more likely to come to market as "sellers capitulate because they don't want to carry negative cash flow."

But feelings were mixed on that front, with many noting that the "extend and pretend" policy has delayed the deleveraging process necessary for a pricing and market recovery.

"There is a long road to recovery ahead and policy uncertainty only makes the road more difficult to travel," DeBoer said.

Transaction volume remains anemic -- down more than 90% compared with 2007 -- which in turn makes valuation difficult and lenders more reluctant to extend credit.

Some industry leaders feel that the price bottom may be near, with 45% of survey respondents expecting asset values to rise in the coming 12 months. On the other hand, another 35% expect them to remain flat, with 19% predicting further declines. For the first time since this study began in 2008, more people have predicted an increase over the next 12 months than a decrease. But few are expecting a quick rebound.

"The free-fall in pricing has stopped, but values are going to stay along the bottom through 2010," said one interviewee. "We're at the 'muddle through' point, with fundamentals continuing to provide downward pressure," said another.

Those expecting growth are also cautious: "Capital market improvements should suggest stability in pricing at least, maybe even some appreciation, but I certainly wouldn't bet on huge appreciation in 2010."

About two-thirds of respondents said both debt and equity capital is more accessible now than a year ago, not surprising, given last year's low baseline at the height of the credit crunch.

"There is more competition on debt. Not much, but enough to tighten spreads," said an interviewee about the debt market. "One year ago there were no life companies; now there are 40 to 50 in the market. One year ago it was 50-55% [loan-to-value], and now we're at 60-65%. One year ago there was absolutely zero CMBS activity; at least now there is some activity."

On the equity side, executives saw the success of public REITs in raising capital as a positive, though fundraising continued to be more difficult in the private market. However, one private equity CEO said "at least investors have climbed out of the short-term perspective and are now seeing things in a longer-term light."

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Hotels Top CMBS Delinquencies

The delinquent status of the Extended Stay America loan was a large contributor to a 129 basis-point increase in overall U.S. CMBS delinquencies last month to 6%, according to Fitch Ratings.

"While the Extended Stay loan is a significant contributor to the increase in delinquencies, a steady up-tick in all property types will lead to continued increases in the months ahead," said Susan Merrick, Fitch managing director. "Even without the classification of the Extended Stay loan as delinquent, the index would have increased to 5.10% instead of 6%."

For the fifth month in a row, each of the five main property types saw an increase in delinquencies. Delinquency rates for those properties compared to last month are as follows.

- Hotel: 16.44% (vs. 9.13%),
- Multifamily: 8.33% (vs. 7.54%),
- Retail: 4.94% (vs. 4.25%),
- Industrial: 3.73% (vs. 3.57%), and
- Office: 3.06% (vs. 2.66%).

Fannie, Freddie Grabbing Ever-Higher Share of Multifamily Financings

Fannie Mae and Freddie Mac dominated multifamily financing last year. The two federal government sponsored entities financed 81% of multifamily activity based on Freddie Mac's accounting. Their combined activity totaled \$36.4 billion.

Fannie Mae, through its lender and housing partners, provided \$19.8 billion in debt financing for the multifamily rental housing market in 2009.

Fannie Mae Multifamily made reinvigorating its mortgage-backed securities business one of its top priorities in 2009. Approximately 81% of total production, or \$16 billion, was an MBS execution in 2009, compared to 17%, or \$5.9 billion, in 2008.

Approximately 87% of the multifamily units financed by Fannie Mae in 2009 were affordable to families at or below the median income of their communities. Approximately 49% of all multifamily units financed by Fannie Mae served special affordable families (low- and very-low income families in low-income areas), and 48% of the multifamily units financed were made in underserved markets.

Freddie Mac financed its highest percentage of market share, 37% of the overall multifamily market, compared to 29% in 2008. Freddie Mac had \$16.6 billion in volume for its multifamily whole loan and bond guarantee business.

Freddie Mac's multifamily transactions financed more than 250,000 apartment units, the vast majority of which are affordable to families earning low or moderate incomes.

Due to a contracting market, the two entities annual production volume declined from 2009. For example, Freddie Mac did \$24 billion in 2008. Still its 2009 volume represents the 3rd largest volume in Freddie Mac's multifamily history.

According to Fannie Mae, fundamentals in the multifamily market are expected to remain under pressure in 2010.

That is also the general consensus of the National Multi Housing, in its latest Quarterly Survey of Apartment Market Conditions.

"This quarter saw a continued uptick in sales volume and equity financing, which represent another step, albeit a small one, toward a more normal transactions market, after 2009 recorded the lowest number of transactions of the decade," said Mark Obrinsky, NMHC chief economist. The weakest performing index is the Market Tightness Index, underscoring the fact that full recovery of occupancy and rents will require job growth to return to the economy. When that happens, and as a large wave of Echo Boomers begins to enter a supply-constrained market, we should see above average rent growth."

While the apartment sector benefits from the mortgage programs of Fannie Mae and Freddie Mac, the CMBS market remains dormant and bank lending activity remains subdued, NMHC said.

Pacific Mercantile, First M&F To Restate Results, Upping Losses

By: Mark Heschmeyer

Pacific Mercantile Bancorp has to restate its unaudited consolidated financial statements as of and for the quarter and nine months ended Sept. 30, 2009. The restatements follow a federal regulatory review of the Pacific Mercantile Bank, its wholly owned bank subsidiary in Costa Mesa, CA.

The restatement involves an increase of approximately \$3.3 million in the bank's allowance for loan losses.

"On a positive note, we are seeing a recent trend that leads us to believe that the condition of the Bank's loan portfolio is improving," said Raymond E. Dellerba, the company's president and CEO.

Loan delinquencies (loans past due from 1-89 days), which totaled \$7.6 million, or 0.90% of total loans, as of Sept. 30, declined by approximately \$5 million, or 65%, to approximately \$2.6 million, as of Dec. 31, 2009. Non-accrual loans (consisting mostly of loans greater than 90 days past due), which totaled approximately \$60 million at Sept. 30, declined by approximately \$8 million, or 13.3%, to approximately \$52 million.

"We are encouraged by this trend, which reflects not only a gradual improvement in economic conditions, but also our decision, in 2007, to reduce real estate interim construction lending, our concerted loan collection efforts and our implementation of more stringent loan underwriting standards," Dellerba added. "However, there is no assurance that this trend will continue, as the future direction of the economy and the speed of the recovery remain uncertain. Moreover, we are not yet able to determine the extent of the impact that this trend will have on our future operating results and we expect that the provision for loan losses will continue to represent a substantial expense, as non-performing loans will continue for some time to remain high relative to pre-recession levels."

Separately, First M&F Corp. in Kosciusko, MS, revised its previously announced preliminary loss for 2009 of \$44.048 million to a loss of \$60.655 million. The revision came after the completion of testing of goodwill for impairment which resulted in the write off of the remaining \$16.772 million balance of goodwill.

The fourth quarter impairment comes after a first quarter write off of \$17.047 million in goodwill and other intangibles.

Earnings for the fourth quarter ended Dec. 31, 2009, were revised from a loss of \$10.881 million to a loss of \$27.488 million. The fourth quarter loss was largely due to real estate loan impairments and write downs of other real estate.

First M&F is parent company of Merchants and Farmers Bank also in Kosciusko with \$1.7 billion in assets. About 42% of the banks outstanding loans are backed by multifamily and nonresidential income producing properties. Among the foreclosed assets on its books are:

- \$950,000 Commercial 14,429 Sq. Ft., 149 Buck Creek Plaza, Alabaster, AL;
- \$825,000 Commercial 30,00 Sq. Ft., 315 Hwy 47 S, Columbiana, AL;
- \$775,000 Commercial 26,242 Sq. Ft., 387 South Main Street, Memphis, TN; and
- \$775,000 Commercial 15,475 Sq. Ft., 297 County Road 244, Oxford, MS, (five buildings -- administrative, nursing, recreational, and two cottages).

Integra Bank Continues To Shed Branches, Assets

By: Mark Heschmeyer

Integra Bank Corp. in Evansville, IN, working under federal agreements to reduce its "criticized assets" and improve earnings, agreed to sell three banking offices of its bank subsidiary, Integra Bank NA to United Community Bancorp's United Community Bank. The branches are in Milan, Osgood and Versailles, IN.

In addition, United has agreed to acquire a group of commercial and residential mortgage loans from Integra.

"This divestiture enhances our capital and is part of a multi-step strategy we are executing that will improve our capital and liquidity positions, reduce our credit risk and accelerate our return to profitability. We expect to execute additional branch sales in 2010, as well as sales of both non-performing and performing loans," said Michael J. Alley, chairman and CEO of Integra. "Based upon letters of intent we have received from other institutions who have performed or are currently performing due diligence, we expect to announce additional agreements for sales in the next 90 days that will provide additional capital and narrow our operating footprint."

As of Sept. 30, Integra reported \$3.3 billion in assets and posted a net loss of \$82.2 million. About 30% of Integra's outstanding loans were related to multifamily and nonresidential real estate. The bank reported that more than \$100 million of its CRE loans were in nonaccrual status.

United based in Lawrenceburg, IN, will assume approximately \$54.4 million of deposit liabilities related to the three branches, as well as \$38.6 million of branch loans and \$12.3 million of additional commercial and residential mortgage loans selected by United that were originated in other Integra offices.

United will pay a 4.50% deposit premium for the deposit liabilities it assumes, with the exception of municipal deposits that are issued after the date of the agreement which will be acquired at par, while the loans will be acquired at their outstanding principal balance. United will not assume any brokered deposits or Keogh accounts in the transaction.

The three banking office premises will be sold at their fair market value and all other fixed assets will be sold at their book values. The transaction is expected to close in the first half of 2010.

Following completion of this transaction, United will have nine Indiana and approximately \$450 million in assets and \$390 million in deposits.

Last September, Integra Bank sold some Kentucky branches, commercial loans and other assets to The Bank of Kentucky.

Real Money: Plaza Centers, Elbit Imaging Team Up on New U.S. CRE Fund

By: Mark Heschmeyer

The Netherlands-based Plaza Centers NV has formed a new real estate investment joint venture with its Tel Aviv, Israel-based parent company, Elbit Imaging Ltd. to take advantage of commercial real estate opportunities in the United States.

In addition, the joint venture, Elbit Plaza USA LP has entered into a framework and co-investment agreement with Eastgate Property LLC, an affiliate of NCH Capital Inc. Under the terms of the new strategic joint venture, Elbit Plaza USA and Eastgate have jointly committed to invest a total of \$200 million in one or more dedicated U.S. real estate investment platforms, which will focus on investments in the U.S. primarily in the retail sector.

Elbit Plaza USA's investment into the fund, totaling US\$ 100 million, will be invested by Plaza and Elbit in equal shares.

The fund will seek to identify potential investments and make both direct purchases and enter into joint ventures with local business partners over a two year acquisition period. The funds objective is then to sell the assets and dissolve the fund within a 5- to-7-year period from the initial closing of the fund.

Eastgate will take an active role in the joint management of the fund.

This new joint venture is part of Elbit Plaza USA's broader strategy of securing additional capital commitments from third-party investors, to take advantage of the attractive pricing currently being seen in the U.S. Elbit Plaza USA intends to raise a total of \$400 million, providing total investment power of up \$1 billion to place in its target market.

Elbit Plaza USA has appointed senior real estate executive Alex Berman as CEO. He will be responsible for strategy, investment activities and operations. Prior to joining Elbit Plaza USA, Berman was an executive with General Growth Properties Inc. and led its international expansion as head of GGP International and previously served as GGP's senior vice president of capital markets and finance.

"We firmly believe that the new fund will be ideally placed to take advantage of the current dislocation in the U.S. financing and real estate markets," said Ran Shtarkman, president and CEO of Plaza Centers. "We currently have a unique opportunity to acquire high quality operating properties at very attractive valuations not seen in the recent past, with potential for significant appreciation. Furthermore, we believe that, as the global and U.S. markets recover, the fund should be well positioned to deliver significant value growth on its investments, through applying the asset management experience of Plaza and Elbit in the retail sector."

Annaly Capital Management Inc. has filed a registration statement with the U.S. Securities & Exchange Commission to make a public offering of \$500 million in aggregate principal amount of its convertible senior notes due 2015. Annaly intends to grant the underwriter of the notes a 30-day option to purchase up to an additional \$75 million aggregate principal amount of the notes solely to cover over-allotments. Annaly expects to use the proceeds of this offering to purchase mortgage-backed securities for its investment portfolio and general corporate purposes.

Omega Healthcare Investors Inc. priced a private placement of \$200 million aggregate principal amount of 7½% senior notes due 2020. The Notes were priced at 98.278% of par value. The company will use the net proceeds to repay mortgage debt assumed in connection with its recent acquisition of 40 facilities.

Capital Raisings, Property Financings

Stone & Youngberg and **Building and Land Technology** completed a \$145 million financing for the Harbor Point Project in Stamford, CT. Stone & Youngberg served as sole underwriter of the financing, which included \$16 million in special obligation Series 2010B Recovery Zone Economic Development Bonds.

National Health Investors Inc. closed on a \$100 million unsecured revolving credit facility to fund new health care real estate investments. The new credit facility, which was provided by Regions Bank as agent and Pinnacle National Bank as a participating bank, bears interest at a margin of 250 basis points over LIBOR with a floor of 1% and matures in February 2011.

Kilroy Realty entered into a \$71 million mortgage loan transaction with Northwestern Mutual Life Insurance Co. The loan encumbers five land properties in Los Angeles and San Diego counties. The loan matures on Feb. 1, 2017, bears interest at an annual rate of 6.51% and requires monthly payments based on a 30-year amortization period.

Foundry Park I LLC, a direct wholly owned subsidiary of **NewMarket Development Corp.**, entered into a long-term \$68.4 million financing arrangement with PB (USA) Realty Corp. The key financial terms of the loan are: 5-year term, with two 13-month extensions available, LIBOR plus 400 basis points pricing with a 200 basis points floor, and a 15 year amortization of the note. The loan is fully guaranteed by NewMarket. The proceeds from this loan together with cash on hand were used to repay the construction loan for the Foundry Park project of approximately \$100 million and certain costs associated with securing the loan.

KBS Real Estate Investment Trust II Inc. originated a first mortgage loan in the amount of \$59.2 million. The borrower used the proceeds from the loan to acquire Chase Tower, a 22-story Class A office tower in Austin, TX. The annual effective interest rate is expected to be 8.4% and is interest-only for the first three years. Separately, KBS originated a first mortgage loan in the amount of \$20.2 million. The borrower used the proceeds from the loan to acquire Tuscan Inn, a four-story, 221-room hotel in San Francisco. The annual effective interest rate is expected to be 8.5% and with interest-only payments during the term of the loan.

Cedar Shopping Centers Inc. has commenced an underwritten public offering of 7.5 million shares of its common stock. Cedar intends to use the net proceeds to reduce its outstanding debt. The underwriters will be granted a 30-day option to purchase up to an additional 1.125 million shares. Recently trading at about \$6.50/share, the offering could generate about \$56 million.

CWCapital provided \$50 million in financing for the construction of Yale Steam Laundry West, a Class A multifamily property in Washington, DC; and arranged acquisition financing for a 324-unit multifamily development in Altamonte Springs, FL. The transaction was the first bond issue closed in Florida under the Treasury's new Bond Credit Enhancement (BCE) program, and one of just four closed nationwide. The 32-year acquisition/rehabilitation bonds were issued by Orange County Housing Finance Authority under its 2009 allocation cycle.

CB Richard Ellis Capital Markets arranged acquisition financing in the amount of \$23.2 million for Archstone Gardens, a multifamily community totaling 300 units in Tamarac, FL. Terms of the fixed rate financing include a 10-year term, 30-year amortization with an interest-only period and 75% loan to purchase price. The borrower was **Coral Vista Investors LLC**.

Hersha Hospitality Trust refinanced the outstanding debt on its Hilton Garden Inn in Tribeca, New York City. The newly built hotel opened in January of 2009. Hersha completed its acquisition of this hotel in June 2009 and assumed approximately \$29.8 million of debt in conjunction with the acquisition. The new non-recourse debt financing increases the mortgage to \$32 million with a fixed interest rate of 8.25%. This new financing extends the maturity from 2012 until 2015.

Metropolitan Realty Associates LLC and its equity partner, **Angelo Gordon & Co.**, secured \$23.5 million in new financing from M&T Bank for its fully leased 188,500-square foot, two-building mixed-use complex in Garden City, NY.

Berkadia Commercial Mortgage LLC originated \$18.66 million in permanent, variable-rate debt through its Freddie Mac program to refinance Altamont Summit, a 439-unit multifamily community in Portland, OR. The borrower is **Altamont Summit LLC**, an affiliate of Arcadia Development Co., of San Jose, CA. Separately, Berkadia originated \$9.55 million in permanent, fixed-rate debt through its FHA program to finance the construction of Victory Centre of Galewood, a seniors' housing community in Chicago. The fully amortizing loan has a 40-year term and an interest rate of 4.47%. The borrower was **Galewood SLF Associates LP**.

Cushman & Wakefield Sonnenblick Goldman arranged an \$18.2 million senior loan secured by a portion of the Freshwater-Stateline Plaza shopping center in Enfield, CT. The loan was provided to an affiliate of **Centro**.

Griffin Land & Nurseries Inc. closed on a \$4.3 million nonrecourse mortgage of its recently acquired industrial building in Breinigsville, PA, with New Alliance Bank. The mortgage has a fixed interest rate of 6.5% and a 10-year term with payments based on a 25-year amortization period.

NUMMI Shutdown Felt Across California

By: Andrew Deichler

As operations at New United Motor Manufacturing Inc. (NUMMI) wind down, the ripple effect of the Fremont, CA, plant's forthcoming shutdown is becoming more and more evident. The factory's closure is seeing many of its suppliers - which employ a total of about 50,000 people - making major cutbacks.

In addition to the 4,700 NUMMI employees that are losing their jobs when the plant shuts down on April 1, several other companies have issued WARN notices, announcing plant closures and mass layoffs at about the same time.

- Johnson Controls, which manufactures seats and overhead consoles for NUMMI, is closing its plant in Livermore. 321 workers will lose their jobs.
- Trim Masters is laying off its 186 employees in Modesto and closing the facility. The company supplies NUMMI with interior door panels.
- Toyota Tsusho America, which provides recycles parts for NUMMI, is laying off 104 people in Fremont.

NUMMI's status first became uncertain last year. In April, GM discontinued production of the Pontiac Vibe at the factory. Then, a few months later, the automaker opted to end its joint venture with Toyota. It was the partnership between GM and Toyota that had re-opened NUMMI in 1984, and with GM no longer involved, NUMMI appeared to be in jeopardy. Shortly after the split, Toyota announced that it was relocating production of its Corolla and Tacoma models to other facilities, ensuring NUMMI's closure.

Retail Downsizings

By: Sasha M. Pardy

NPD Group Records 1,652 Net Closures of Restaurants in 2009

Retail industry research firm, NPD Group, reports that the total number of restaurants in the U.S. fell by 0.3% during 2009, representing the closure of 1,652 net restaurants. NPD attributes the net loss in restaurants primarily to independent quick service restaurant operators, as well as both full-service and quick service chain

restaurants with 50 to 499 units -- major chains (500+ units) actually increased their total unit counts by about 1%, said NPD. Geographically, NPD said that Michigan, Ohio and Illinois saw the largest decline in the total number of restaurants during the year.

Greg Starzynski, director of product development-foodservice at NPD said the group's findings reflect a "slowdown in chains expanding and two years of a challenging economy already weeding out the poorest performing restaurants." He added, "The economy has been particularly hard on independent restaurants and smaller regional chains that don't have the same financial resources as the national chains."

Urban Science Reports 1,605 Car Dealership Closures in 2009

Automotive industry research firm, Urban Science reports that the number of auto dealerships that closed in 2009 broke an all-time record. The nation's car dealership count fell by 1,605, or 8% during 2009 to end the year with 18,841 dealerships, said Urban Science. This compares to the 881 dealership net closures recorded during 2008. "Normal Attrition is 1%," said Urban Science.

States losing the largest percentage of dealerships were Alaska, Mississippi, South Carolina, Arkansas and Missouri, while markets with the largest percentage net decline included Charleston, S.C. (-16.3%), Stockton, Calif. (-16.2%), Albany, N.Y. (-15.5%), Poughkeepsie, N.Y. (-15.2%), and Greensboro, N.C. (-14%).

"The numbers were mostly a result of automakers taking proactive action to reduce dealer count, with GM and Chrysler accounting for approximately 90 percent of the consolidation," said the research firm.

Disney Closing 8% of Disney Store Fleet

Disney recently announced that over the course of the next few months, 24 U.S. and three Canada Disney Store locations would be liquidated and shuttered. As of October 2009, there were 340 Disney Stores in the fleet. This closure effort is part of its overall plan to revamp its existing store base into the "Imagination Park" concept, which is intended to transform stores to be interactive and have a feel that more closely matches its Magic Kingdom theme park.

The locations of the closing U.S. stores follows: Riverchase Galleria in Birmingham, AL; South Bay Galleria in Redondo Beach, CA; Southwest Plaza in Littleton, CO; Broward Mall in Plantation, FL; Arbor Place in Douglasville, GA; Boise Town Square in Boise, ID; Yorktown Center in Lombard, IL; Spring Hill Mall in West Dundee, IL; Glenbrook Square in Fort Wayne, IN; Greenwood Park Mall in Greenwood, IN; Florence Mall in Florence, KY; Silver City Galleria in Taunton, MA; RiverTown Crossing in Grandville, MI; Southland Center in Taylor, MI; Coronado Center in Albuquerque, NM; Belden Village Mall in Canton, OH; Broadway at the Beach in Myrtle Beach, SC; Coolsprings Galleria in Franklin, TN; Opry Mills in Nashville, TN; The Parks At Arlington in Arlington, TX; West Oaks Mall in Houston, TX; Collin Creek Mall in Plano, TX; Dulles Town Center in Dulles, VA; and Valley View Mall in Roanoke, VA.

McGrath's Fish House Chain Files Bankruptcy

Salem, OR-based McGrath's Publick Fish House filed bankruptcy on Feb. 3, 2009. The company operates a chain of 20 McGrath's seafood restaurants in OR (8), UT (4), AZ (3), WA (3), CO (1) and ID (1). According to CoStar Tenant, the typical McGrath's is between 6,000 and 9,500 square feet.

McGrath's reported assets and liabilities between \$10 million and \$50 million in the filing. The first McGrath's Fish House opened in downtown Salem, OR in 1980.

According to the Statesman Journal, company founder John McGrath said the restaurant chain's ill-timed expansion into Southwestern states had a lot to do with the company's bankruptcy. "The company hopes its reorganization will allow it to keep many, if not all, of its restaurants. We have to kind of wait and see what happens with the lenders," McGrath said.

Editor's Note: 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, and more by emailing [Sasha M. Pardy](#). [Click here for access to back issues of the roundup.](#)

Local Closure & Layoffs

Company	Address	Closure or Layoff	# Affected	Impact Date
NUMMI	45500 Fremont Blvd, Fremont, CA	closure	4,700	4/1/2010
Johnson Controls, Inc.	6383 Las Positas Rd, Livermore, CA	closure	321	3/25/2010-9/30/2010
Trim Masters, Inc.	201 S McClure Rd, Modesto, CA	closure	186	3/31/2010
Toyota Tsusho America	Freemont, CA	layoff	104	3/31/2010
Karyleion, Inc.	2623 E Slauson Ave & 3111 E Florence Ave, Huntington Park, CA	layoff	348	3/17/2010
Redbarn Pet Products, Inc.	2148 W 16th St, Long Beach, CA	closure	106	3/24/2010
Pelco	3500 Pelco Way, Clovis, CA	layoff	104	3/15/2010
RTI Electronics	1800 Via Burton St, Anaheim, CA	closure	57	3/12/2010
Verizon Corporate Services	11333 Sepulveda Blvd, Mission Hills, CA	closure	59	3/28/2010-4/5/2010
Riverside Cement	19409 National Trail Hwy, Oro Grande, CA	layoff	82	3/28/2010
Sam's Club	1900 University Dr, Vista, CA	closure	149	3/11/2010
Edo Reconnaissance & Surveillance Systems	18705 Madrone Pky, Morgan Hill, CA	layoff	116	3/21/2010
Centralized Laboratory Services (CLS)	43-25 Hunter St, Long Island City, NY	closure	135	5/10/2010
Saint Vincent Catholic Medical Centers of New York	450 West 33rd St, New York, NY	layoff	32	2/28/2010
Silgan Plastics Corp.	460 Erie Industrial Park, Port Clinton, OH	closure	154	2/2/2010-6/30/2010
Core Molding Technologies	800 Manor Park Dr, Columbus, OH	layoff	156	4/5/2010-summer
Luxottica Group	9926 International Blvd, Cincinnati, OH	closure	60	4/16/2010
Cardinal Health	6812 Corporate Dr, Indianapolis, IN	layoff	49	4/3/2010
AAA Hoosier Motor Club	3750 Guion Rd, Indianapolis, IN	closure	61	6/30/2010
K-Mart	2500 Park Road, Connersville, IN	closure	59	5/31/2010

Lease Cancellations

Maguire Properties LP agreed to terminate its lease of 17,207 square feet of rentable area on the fourth floor at the 1733 Ocean Ave. in Santa Monica, CA. The building is owned by Robert F. Maguire III, the company's former chairman and CEO. The lease wasn't to expire until July 2016. Under the lease, the company paid annual rent totaling approximately \$700,000, \$800,000 and \$1 million in 2007, 2008 and 2009, respectively. The company's future contractual lease obligations totaled approximately \$8.5 million. Maguire Properties will pay a \$2.5 million lease termination fee.

Acadia Pharmaceuticals Inc. restructured its headquarters lease with RGH Holdings LP and terminated an additional lease. The drug company will remain at 3911 Sorrento Valley Blvd. in San Diego, with its rent reduced by 20%. However, Acadia is terminating its lease in the adjacent facility at 3931 Sorrento Valley Blvd. as of Feb. 28.

Six Flags Inc. rejected its lease at 1540 Broadway in Manhattan, following its Chapter 11 filing in June 2009. The theme park operator is attempting to overcome \$2.4 billion in debt. Six Flags' restructuring plan aims to reduce its debt to about \$600 million.

Mesa Air Group Inc., one of the largest regional air carriers, filed for Chapter 11 on Jan. 5. After evaluating its commercial space, Mesa Air Group determined that two leases for its Freedom Airlines subsidiary in Georgia and Texas represented an unnecessary expense. By rejecting the leases, Mesa Group estimates it is saving approximately \$27,000.

Company	Address	Affected Parties	Comment
ACADIA Pharmaceuticals	3911 Sorrento Valley Blvd, San Diego, CA	RGH Holdings LP	36,000 SF, Rent to be reduced by 20%
ACADIA Pharmaceuticals	3931 Sorrento Valley Blvd, San Diego, CA	RGH Holdings LP	24,000 SF, terminating 2/28/2010
Six Flags, Inc.	1540 Broadway New York, NY	CB Richard Ellis Investors	21,500 SF
Mesa Air Group	1005 Virginia Ave., Hapeville, GA	Joy Lake Partners LLP	Orig. exp. 5/31/2011, \$1,277/mo.
Mesa Air Group	5605 N. MacArthur Blvd., Irving, TX	Regus Business Centres Corp.	Orig. exp. 2/28/2010, \$4,152/mo.
Champion Home Manufacturing	955 Chesterbrook Blvd., Suite 110, Wayne, PA	Glenhardie Partners LP	Monthly rent \$4,463
Maguire Properties LP	1733 Ocean Ave., Snata Monica, CA	Robert F. Maguire III	17,207 square feet; exp. July 2016; will pay \$2.5 million termination fee

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 with the Securities & Exchange Commission.

Property	Address	City, State	2010 Maturity Amount	2011 Maturity Amount	Borrower
Wisconsin Place Retail (5%)	5404 Wisconsin Ave.	Chevy Chase, MD	\$3,077,000	-	Boston Properties
Wisconsin Place Office	5404 Wisconsin Ave.	Chevy Chase, MD	-	\$97,169,000	Boston Properties
University Place	124 Mount auburn St.	Cambridge, MA	\$1,063,000	\$1,139,000	Boston Properties
Two Grand Central Tower (60%)	140 E. 45th St.	New York, NY	\$114,000,000	-	Boston Properties
Sumner Square	1615-1625 M St. NW	Washington, DC	\$804,000	\$865,000	Boston Properties
South of Market	1875 Explorer St.	Reston, VA	\$187,377,000	-	Boston Properties
One Freedom Square	One Freedom Square	Reston, VA	\$1,408,000	\$1,521,000	Boston Properties
New Dominion Technology Park, Building One	399 Grove St.	Herndon, VA	\$1,715,000	\$1,846,000	Boston Properties
Metropolitan Square (51%)	655 15th St. NW	Washington, DC	\$63,437,000	-	Boston Properties
Market Square North (50%)	401 19th St. NW	Washington, DC	\$41,549,000	-	Boston Properties
Kingstowne Two and Retail		Alexandria, VA	\$1,446,000	\$1,535,000	Boston Properties
Kingstowne One		Alexandria, VA	\$582,000	\$618,000	Boston Properties
Embarcadero Center Four	Four Embarcadero Center	San Francisco, CA	-	\$4,520,000	Boston Properties
Eighth Avenue and 46th Street (50%)		New York, NY	\$11,800,000	-	Boston Properties
Eight Cambridge Center	Eight Cambridge Center	Cambridge, MA	\$22,910,000	-	Boston Properties
Democracy Tower		Reston, VA	\$58,875,000	-	Boston Properties
Annapolis Junction (50%)	8210 Dorsey Rund Road	Annapolis, MD	\$21,349,000	-	Boston Properties
901 New York Avenue (25%)	901 New York Ave.	Washington, DC	\$669,000	\$705,000	Boston Properties

Property	Address	City, State	2010 Maturity Amount	2011 Maturity Amount	Borrower
601 Lexington Avenue (formerly Citigroup Center)	601 Lexington Ave.	New York, NY	\$9,517,000	\$456,633,000	Boston Properties
540 Madison Avenue (60%)	540 Madison Ave.	New York, NY	\$240,000	\$240,000	Boston Properties
505 9th Street	505 9th St. NW	Washington, DC	\$1,943,000	\$2,057,000	Boston Properties
202, 206 & 214 Carnegie Center	202, 206 & 214 Carnegie Center	Princeton, NJ	\$56,306,000	-	Boston Properties
140 Kendrick Street	140 Kendrick St.	Needham, MA	\$985,000	\$1,061,000	Boston Properties
1330 Connecticut Avenue	1330 Connecticut Ave. NW	Washington, DC	\$1,389,000	\$44,796,000	Boston Properties
125 West 55th Street (60%)	125 W. 55th St.	New York, NY	\$158,100,000	-	Boston Properties
10 & 20 Burlington Mall Road & 91 Hartwell	10 & 20 Burlington Mall Road & 91 Hartwell	Burlington & Lexington, MA	\$1,062,000	\$32,618,000	Boston Properties

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Watch List

The following is a weekly feature from CoStar Group of properties that may potentially be affected by worsening financial conditions, borrower issues, deteriorating property conditions, or 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 Name	Address	Property Type, Size	Comments
Lake Park Portfolio	1 Media Crossways Drive & nine other properties, Woodbury, NY	Office, 1,055,577	CSC Holdings, a tenant that fully occupied three of the 10 buildings, did not renew its leases. Borrower is actively searching for a new tenant. First quarter 2009 debt service coverage was 1.78 with occupancy of 89%.
Park 80 West	Park 80 West Plaza I & II, Saddle Brook, NJ	Office, 490,000	Borrower is requesting a restructure of the loan terms.
Food Emporium	2409-2415 Broadway/250 W. 90th St., New York, NY	Retail, 20,000	Borrower is making monthly payments on a timely basis but accrued default interest and late charges from prior delinquent payments remains due.
Kaka'ako Warehouse	850 Kawaiahao St., Honolulu, HI	Industrial, 169,853	Imminent default due to cash flow problems.
Various	2520-2550 Telegraph Road, 40700 Woodward Ave., Bloomfield Hills, MI	Office, 110,307	The trust was the successful bidder at 6/23/09 foreclosure sale, with a credit bid of \$10 million.
Quality Suites and Holiday Inn Express Hotels-Mira Mesa	9880 & 9888 Mira Mesa Blvd., San Diego, CA	Hotel, 202	60 to 89 days delinquent.
River Park Shopping Center	4200-4330 E. Judge Perez Drive, Meraux, LA	Retail, 230,659	Lender has received a judgment of foreclosure to take title to the property but will evaluate other alternatives as a possible resolution including selling the judgment.
Grande Oaks Apartments	3260 Justina Road, Jacksonville, FL	Multifamily, 200	A sale of the property and assumption of the loan for \$3 million has been approved. Legal counsel in the process of drafting sales contract.
Supercenter Plaza	46 Supercenter Plaza Drive, Lewistown, PA	Retail, 41,460	Borrower has agreed to consent to Lender's foreclosure action. Foreclosure has not been filed.
Marianna Gardens	3070 Carters Mill Road, Marianna, FL	Multifamily, 100	60+ days delinquent. Local counsel has been retained and is moving forward with the foreclosure process.
Terrace Club Apartments	7402 Heritage Hills Drive, Tampa, FL	Multifamily, 90	Foreclosure has been filed and a receiver is managing the property.
Food Basics	3995 E. Fourteen Mile Road, Sterling Heights, MI	Retail, 35,533	Borrower is making monthly payments on a timely basis but accrued default interest and late charges from prior delinquent payments remains due. Borrower has made a request to the property from the cross-collateralization with Food Emporium above and has sent in terms for a proposed substitute property.
Various	2926 Una St., 70 Cloverleaf Trailer Park, Various, AL	Mobile Home, 322	Borrower has prevailed in its litigation against the Forestdale Fire District and is in the process of redeeming title in portion of collateral. Borrower continues to make monthly payments on loan.
TS Star of Mt. Pleasant Center	1401 S. Jefferson Ave., Mount Pleasant, TX	Retail, 7,320	Loan was transferred to special servicing on 10/15/09 due to delinquent payments. The servicers is moving ahead with foreclosure.
LBUBS 2005-C2; Master Servicer: Wells Fargo Bank; Special Servicer: LNR Partners			