

THE PROPERTY REPORT

Commercial Sales Jump

Debate Over Reaching Bottom Follows Two Months of Gains

By CHRISTINA S.N. LEWIS

The number of commercial real-estate sales rose sharply in December, triggering fresh debate about whether the sector has reached bottom.

Property sales, a gauge of market health, rose 75% in December from the prior month, according to Real Capital Analytics. The end of the year traditionally sees an increase in volume. But the recent increase is significant even after adjusting for that, says Neal Elkin, president of REAL, a research firm that analyzed the data.

The Moody's/REAL All Commercial Property Price Indices, or CPPI, which track values, measured a 4.1% increase in December. This followed an increase of 1% in November, which was the first time since 2007 that there were two consecutive months of rising values.

But Moody's and REAL agreed that it is too soon to conclude that the market has hit bottom.

"It makes me feel very confident that the dramatic violent price movement that we saw in the first part of 2009 is over," says Mr. Elkin of REAL. "But I would never be so bold to say that we are going straight up from here."

There were 716 transactions in December, according to the CPPI. That compares with more than 1,600 deals in December 2007.

Sales activity has been in the

doldrums for months because of a dearth of financings and sellers' unwillingness to put property on the block when prices are down sharply from a few years ago. That means competition can be fierce when prime buildings are put up for sale.

Earlier this month, an institutional real-estate fund run by J.P. Morgan Asset Management bid on a large \$100 million-plus rental-apartment property in Washington. Seventeen other buyers submitted offers, says Kevin Faxon, head of U.S. Real Estate for J.P. Morgan Asset Management.

"We are actively in the market seeking to acquire properties," Mr. Faxon says. "We are not on the sidelines. We're not taking a view that prices are going to be cheaper tomorrow than they are today."

Also, some healthy properties are still commanding decent prices. In Boston, a nearly 200,000-square-foot office and retail property called One Brigham Circle is in contract to sell for \$97 million to AEW Capital Management, according to a person with knowledge of the deal. Brokers for Cushman & Wakefield are representing the seller, the Rappaport family's New Boston Fund.

The cap rate, an industry term for the buyer's nonleveraged yield on the property at current net rents, is less than 6.5%, a return that is comparable to property prices in 2005 and 2006, according to local brokers. The building is fully leased.

The conflicting market signals come at a time when the commercial real-estate sector faces significant challenges. The economic fundamentals, such as anemic hiring, mean that office rents are likely to continue falling while vacancies continue to rise. Meanwhile, apartment rents also are low, driven down by record low home prices and increased supply from investors stuck with unsold properties who have put them on the rental market.

In addition, many top-of-the-market real-estate deals are still expected to go bad, like Peter Cooper Village and Stuyvesant

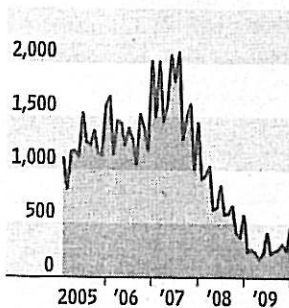
Town, a sprawling Manhattan residential complex that is in default on \$4.4 billion in debt.

Market bulls agree that the sector continues to perform badly. But they argue it is doing better than people thought it would. Therefore, real-estate assets are undervalued and prices are going up, they say.

"No one believed me that values were going to go up so soon," says Dan Fasulo, head of research for Real Capital Analytics. "But there's enough anecdotal evidence now that we've come well up off the bottom already."

Reason for Hope

Number of U.S. properties sold for more than \$5 million, monthly data



Source: Real Capital Analytics