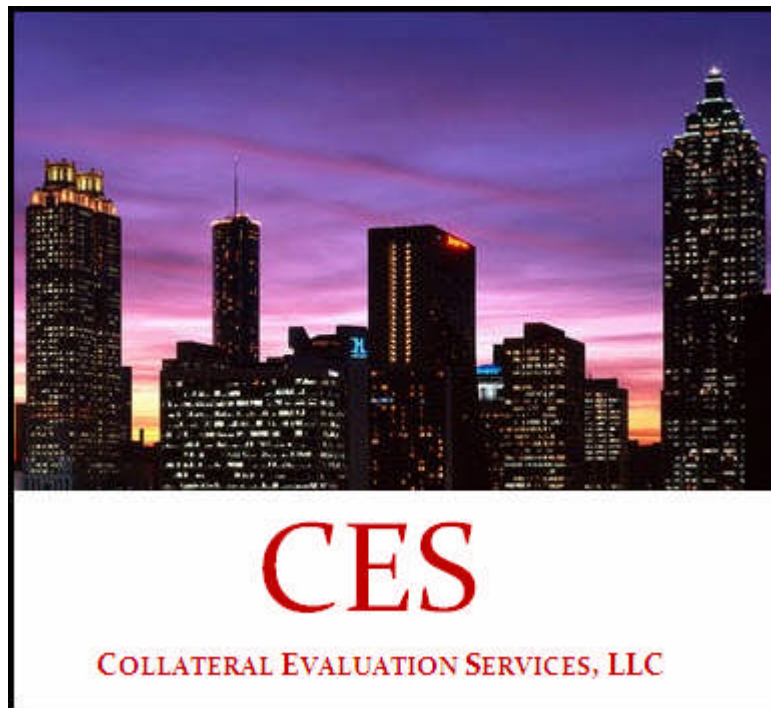


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## Real Estate Market Report – August 2009



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**Collateral Evaluation Services, LLC**

TELEPHONE: 770 998-2098  
CELL PHONE: 804 241 6044  
EMAIL: GMANN@CES-WM.COM

**August 2009**

EDITOR: GEORGE R. MANN  
LARRY R. WOODALL

## INTRODUCTION

By Collateral Evaluation Services, LLC

*“So far so good. Now to see how this plays out.”*

In the first quarter of the year, we told our clients that this Summer would see a ‘false’ increase in home prices. Although several home price indicators increased in May, the Case-Shiller Index that we follow did not. A small increase in June or July would not be a surprise though.

Also, at the stock market bottom in March we forecast a bear market rally for the Dow Jones Industrial Average to 9457. OK, that is precise, but there was some technical logic to the forecast. The largest 105-day rally in stock market history has occurred and the DJIA exceeded our target this past Friday. Even if this is a new bull market, and not a bear market rally, a decline to the 7400-8200 area is in the cards.

We now sit where we expected to be. The stock market way up. Home prices providing a ‘green shoot.’ And almost every day a pronouncement that the recession is over. We expected all of this. The question now becomes – will our forecast of a stock and real estate market decline over the next 15 months occur or will the bullish contingent prove right and the markets continue up from here? As always, only time will tell.

Obviously, we’ve been wrong with our forecasts at one time or another. But we remain bearish on all markets. With the American population having debt that totals 128% of national output, it is difficult to see the consumer bringing us out of this Depression anytime soon. Fundamentals will remain weak for at least another year.

The markets account for news 6 months in advance. So yes the markets will be rallying while the bad news continues – we just think we have 15+ months of decline ahead of us so it is too early to buy anything. Cash is king.

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Remember this is a free publication that we aim to publish monthly. If you know of anyone who might be interested in receiving our market report, please feel free to pass this copy along to them – they just need to send us their email address and we will add them to our distribution list. Thanks to those who did just that last month – we probably added 50 new subscribers. Welcome to the new subscribers. Note that we do not share our mail list with anyone outside CES.

As always, we hope you find this report interesting, and optimally somehow of use in your everyday job. The contents will be dictated by our readers, so your comments are appreciated and needed. Please email them to George Mann at [GMann@CES-WM.Com](mailto:GMann@CES-WM.Com).

Managing Directors  
Collateral Evaluation Services, LLC  
[www.CES-WM.com](http://www.CES-WM.com)

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## NATIONAL OVERVIEW

By Collateral Evaluation Services, LLC

NOTE: Following is a summary of market conditions for major property types with a focus on the past 18 months and the upcoming 18 months. The information within this section provides generalizations on a nationwide basis. Exceptions may exist and they will be detailed in the subsequent Metro Areas Overview.

### SINGLE UNIT DWELLINGS

The following is from S&P/Case-Shiller (June 2009):

*“The pace of decline in residential real estate slowed in April,” said David Blitzer, chairman of Standard & Poor’s Index Committee. “In addition to the 10-city and 20-city composites, 13 of the 20 metro areas also saw improvement in their annual return compared to that of March. Furthermore, every metro area, except for Charlotte, recorded an improvement in monthly returns over March.”*

*The strongest performing cities continue to be Denver, Dallas and Boston with annual declines of 4.9 percent, 5.0 percent and 7.7 percent, respectively, as of April. The weakest performing cities as of April continue to be from the Sunbelt, with Phoenix reporting a decline of 35.3 percent during the last 12 months, Las Vegas falling 32.2 percent and San Francisco decreasing 28.0 percent.*

*From the housing market peak in the second quarter of 2006 through April 2009, the 10-city composite has fallen 33.6 percent and the 20-city composite has dropped 32.6 percent. Dallas has fared the best, falling only 9.6 percent from its peak in June 2007, while Phoenix has been hit the hardest, dropping 54.1 percent from its peak in June 2006.”*

The following is from S&P/Case-Shiller (July 2009):

*“According to Standard & Poor’s Case-Shiller Home Price Index, which measures the residential housing market, May marked the fourth consecutive month in which the annual rate of decline of 10-city and 20-city home price composites improved.*

*Released Tuesday, the index of 20 metropolitan areas showed an annual decline of 17.1 percent for the month of May, a step up from April’s 18.1 percent, while the 10-city index showed a 16.8 percent year-over year decline compared with April.*

*While continued stabilization in 2009 is seen by analysts as promising, the numbers are sobering when compared to 2008 statistics. The Case-Shiller Price Index for May of this year represents a 15.8 percent drop when compared to a year ago. This is the steepest decline witnessed since the Case-Shiller Price Index was introduced in 2000.*

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*Additionally sobering is that no city in the Case-Shiller 20-city index saw price gains for the second straight month. Overall, the monthly indices have not recorded home price increases now in any month since August 2006.*

*The S&P Case-Shiller Home Price Indices are calculated on a monthly basis and published with a two month lag.”*

As noted, national prices have declined about 33% from their peaks in 2006, with ‘bubble’ markets experiencing declines over 50%. In ‘bubble’ markets, CES has seen 2009 appraisals 40% to 60% lower than appraisals in 2005-2006. Home prices are at about the same level they were in 2003.

**CES has projected declining house prices throughout 2009 with the rate of decline slowing in the Fall.** Per Case-Shiller, home prices have declined about 7.5% this year. Housing futures traded on the Chicago Mercantile Exchange (CME) are projecting a small 1% increase thru yearend.

Some studies indicate that prices will need to decline another 5%-15% nationwide to get average prices back in line with long-term appreciation rates. We believe that to be a reasonable assumption. As of early August, housing futures traded on the CME are projecting a 3.7% decline for home prices nationwide through the end of 2010. This is down from an 8.5% decline projected in early April, but unchanged for the last two months.

Our projection for housing in 2010 is complicated by a significant number of negative amortization mortgages coming due in the Spring and Summer of that year. It is projected that most of these will go into foreclosure as the LTVs are likely to be in the 150%-200%+ range. It is difficult to project how many of these mortgages will be ‘fixed’ by the government, but recent reports indicate very few have been fixed to date. Recent projects we have worked on already confirm that LTVs are already near 150% for many borrowers in the bubble markets. **For 2010, we believe prices will likely decline nationwide by 5% to 10%**, with some markets bottoming out and having no further declines.

**The earliest CES sees a true market bottom in housing is 2011.** Even then we will probably have a mixture of markets still declining along with others seeing some appreciation. Overall, the nationwide average price should begin to finally turn up. Price appreciations in some markets may be double digits as they will be bouncing up from severely oversold conditions.

In general, due to holding costs and further uncertainties in all financial markets, it is probably better to sell today than hold thru the remaining housing market decline. Likewise it is too early to make speculative investments as you would have to pay carrying costs over the next 15 months, while values are projected to decline by about another 4%. Some market participants use 1% of value per month as a carrying cost estimate – thus over the next 15 months a home investment made today might lose 20% in value.

## VACANT LAND, RESIDENTIAL SUBDIVISIONS, & CONDOMINIUM PROJECTS

These property types are lumped together as they are encountering the same market conditions – extreme weakness. CES has found a large average decline in property values for these projects nationwide, with ‘bubble’ markets experiencing the largest decreases.

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To address 'bubble' markets first, as they are causing the most problems to the financial industry and the national economy. CES has seen a typical decline of 60% to 80% in value (from peak levels in 2005-2006) for residential subdivisions (i.e. finished lots) and condominium projects in Florida, Gulf of Mexico and Atlantic Ocean beachfront projects, Phoenix, Las Vegas, and many areas of California.

Bank Workout Groups have been able to sell individual projects for 40 cents on the dollar in markets from Florida to Detroit to California. However, this is taking time and effort and is on a property by property basis. Hedge and vulture funds continue to offer 20 cents on the dollar – if banks want to sell a portfolio, this is probably the price they will have to take.

CES has reviewed over 100 appraisals of residential subdivision and condominium projects this year and the majority are estimating market value at 65% to 70% below either total project cost or gross retail prices at the market top. **Internal Rates of Returns are approaching 35% (inclusive of entrepreneurial profit) in some of the weakest markets.**

We encourage readers to subscribe to **RealtyRates.Com** to get the most comprehensive survey of discount rates. For those using this survey (the only survey we know of nationwide that covers residential subdivisions and condo projects), note that the discount rates for residential lots include entrepreneurial profit. However, the discount rates for condo projects do not include profit – a 12% to 15% line item deduction must be made in addition to the discount rate in the survey.

Bulk condo sales are becoming more common and we hope to report on what our research finds in that regard in future issues of this market report. In fact, the website CondoVultures.Com reported the 10<sup>th</sup> bulk condo sale in Miami occurred this past month.

We have seen value declines up to 80% for raw land in bubble markets, also. Banks are having trouble getting any bids when auctioning OREO land. Market participants seem to have no desire to buy raw land when there are so many finished lots available at discount prices. Finished lots will be purchased before vacant land as builders can get their product to market faster when the inevitable up cycle occurs. We hear buyers say that maybe at 5 or 10 cents on the dollar they may buy vacant land – but at many auctions no one even bids those prices.

In non-bubble markets (e.g. the Midwest), subdivisions and condo projects have probably declined 20%-40% in value. The decline is less as these markets did not experience rapid appreciation or absorption rates. However, the slowdown in the housing market coupled with increase risk for all real estate has still adversely affected the value of these properties.

## COMMERCIAL PROPERTIES – Income Producing

Almost two years after the credit crisis began (August 2007), market participants have finally come to the realization that commercial property values are generally down 30%-35%+ from their peaks. The decline continues to pick up speed (unlike the housing market which is slowing down as it nears a bottom) and more and more markets are reporting 50%+ value declines in commercial properties.

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Many property owners continue to be in denial about the price declines or simply refuse to sell at a loss. An axiom we learned long ago is that you don't have to buy, but often you have to sell. As such, the number of property owners having to sell their properties is increasing and the prices they are receiving are in line with the value declines reported above. Although market participants complain about a lack of data, we are seeing several 2009 sales in almost every appraisal we review.

Probably the best way to show the decline in commercial real estate is to simply provide the following quotations from the Appraisal Institute's web site:

*"Results for the second quarter of 2009 show an 18.1 percent decline in prices compared to the previous quarter for properties sold from the National Council of Real Estate Investment Fiduciaries database, according to the Transaction-Based Index from the Massachusetts Institute of Technology's Center for Real Estate. The drop places the price index 39.2 percent below its second quarter 2007 peak.*

*The demand-side index fell by a record 17.6 percent, to 48.1 percent below its second quarter 2007 peak while the supply-side of the market recorded its first substantial drop of this downturn, down a record 18.5 percent, taking that index to 30.1 percent below its first quarter 2008 peak. Transaction volume underlying the TBI increased for the first time since last summer, from 0.3 percent to 0.6 percent of the NCREIF population of properties.*

For more info, go to <http://web.mit.edu/cre/research/credl/tbi.html>. For NCREIF's second quarter 2009 Snapshot, visit [www.ncreif.org/pdf/NPI\\_Snapshot\\_Report\\_2q09.pdf](http://www.ncreif.org/pdf/NPI_Snapshot_Report_2q09.pdf)."

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*"Large hotels top the "loans of concern" list for U.S. commercial mortgage backed securities as eight newly defaulted loans greater than \$100 million are entering special servicing, according to Fitch's "What's in Special Servicing" U.S. CMBS report. Four of the 10 largest delinquent loans have experienced appraisal reductions as a result of value declines, indicating that losses may be significant in their respective deals, Fitch managing director Mary MacNeill told Commercial Property News. Of more than 2,000 specially serviced loans, 64 have balances greater than \$100 million.*

*Two hotel portfolios, Red Roof Inn and Extended Stay, recently joined the list of defaulted loans. Since Fitch's last update in April, \$17.4 billion in Fitch-rated loans have entered special servicing, which does not include the Extended Stay Portfolio, which on its own totals more than \$4 billion.*

*Fitch's currently rated U.S. CMBS portfolio consists of 470 transactions with an unpaid principal balance of \$471 billion. As of June 30, Fitch's loan delinquency index, which measures loans 60 days delinquent, in foreclosure or real estate owned, was 2.55 percent due to the delinquency of 1,730 loans representing \$12 billion in unpaid principal balance. The average delinquent loan size is \$6.9 million.*

*There are an additional 632 Fitch-rated non-delinquent – current, performing matured or 30 days late – specially serviced loans totaling \$17.4 billion that are currently with the special servicer. Excluding the Extended Stay Portfolio, which is a single-borrower transaction totaling \$4.1 billion, the average loan size is \$21.6 million."*

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*“The latest from the Real Estate Roundtable indicates that the continuing reduction in tenant demand for industrial real estate will prolong lower rents for businesses. According to a recent RER survey, 93 percent of the 120 chief executives, chairmen, presidents, board members and others polled say commercial real estate prices are lower than they were a year ago. Eighty-two percent expect values to remain roughly the same or erode further in the next 12 months, according to the Roundtable.*

*Hotels, office buildings, shopping centers, warehouses and apartment building owners and lenders have been struggling with declining rents and rising vacancies. As prices for these assets have decreased, the credit crisis has taken away sources to finance sales or refinance maturing loans.”*

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*“It would not be surprising to see delinquency rates rise past 7 percent by the end of the year,” research firm Reis said in its second quarter commercial mortgage-backed securities report. “Downward pressure on net operating income and declining property values continue to make refinancing for existing loans a challenge.” The credit crisis, combined with lower occupancies and rent levels for apartment buildings, offices, shopping malls, warehouses and hotels, led to the forecast.*

*As reported by Reis, the default and delinquency rate in the second quarter increased to 2.99 percent, up from 1.8 percent in the first quarter and 0.66 percent the same period a year ago. With a rate of 4.56 percent, the hotel sector had the highest level of defaults and delinquencies in the second quarter while Detroit, with a rate of 11.4 percent, had the highest level among the 30 largest cities in the country. Loans made in 2005 and 2006 had the highest proportion of late payments, reaching 4.05 percent and 4.29 percent, respectively.*

*According to Richard Parkus, head of CMBS research at Deutsche Bank, the speed of deterioration in CMBS performance is unprecedented. At the end of first quarter 2009, Parkus projected that the aggregate delinquency rate would reach in excess of 3.5 percent by the end of 2009, and 5 to 6 percent by late 2010. However, as the commercial real estate sector continued to deteriorate, Parkus updated his second quarter 2009 outlook, projecting that the aggregate delinquency rate will reach 6 to 7 percent by year’s end.*

*Furthermore, according to Deutsche Bank, perhaps 65 percent of loans, or more, could fail to qualify to refinance, at least without large equity infusions. “In effect,” the report said, “the massive paradigm shift in underwriting standards, combined with 35-45 percent price declines and severely depressed cash flows, would likely strand a vast swath of the commercial real estate debt markets.” The report concludes that the looming commercial real estate crash may well exceed the collapse that took place in the early 1990s.”*

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*“Commercial real estate had a record drop in prices during the second quarter of 2009, as noted in a recently released index that tracks commercial property sold by institutional investors. The index, developed by the Massachusetts Institute of Technology Center for Real Estate, plunged 18.1 percent despite an increase in the number of sales, and is currently 22 percent down from August 2009*

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January 2009, 32 percent from the same period a year ago and 39 percent from the peak it reached in mid-2007.

*“The big news this quarter is not just the magnitude of the drop, but the fact that transaction volume actually increased in the presence of this decline, the first volume increase since last summer,” David Geltner, director of research at MIT/CRE, said in a statement. “Perhaps most important, the supply-side index of the prices property owners are willing to sell at plunged a record 18.5 percent, suggesting a degree of capitulation that may help to finally bring market prices to a bottom.”*

*The second quarter decline was the steepest in the 25-year history of the index, far greater than the former record of 10.6 percent that occurred in the fourth quarter of 2008. While taking into consideration inflation, the decline has surpassed the 27 percent fall that occurred during the commercial real estate meltdown in the late 1980s and early 1990s.”*

We can't add much to the above facts and opinions. The truly eye-opening statistics we are seeing is that we might only be 20%-30% of the way through the commercial real estate bear market. If we have only seen the tip of the iceberg, the future looks quite bleak. Our analysis of each property type follows, but there has been little change from prior months. We expect to add 500 plus new subscribers this month so this will be new information to them.

**APARTMENTS** – Market participants originally thought this market segment would benefit from the current recession because families that lost their homes to foreclosure would move to apartments. Also, fewer young families could buy their first home due to stringent financing requirements and they would have to stay or move to apartments. However, the supply side has exceeded their expectations and the large number of failed condo conversions and the increasing number of houses being rented has been greater than demand – the result is a general increase in vacancy rates nationwide. **Lower rents and higher vacancy rates are forecast thru 2010, also.** According to the most recent Korpacz Survey, cap rates have increased 174bp in the past 12 months. In addition, appraisals we have reviewed show cap rates for ‘fractured condo’ projects are 150bp higher than cap rates for normal apartment projects.

**OFFICE** – As projected earlier this year, the Office market has seen significant weakness – Grubb & Ellis is now showing national vacancy at 16.6%. According to the Korpacz Survey, cap rates have increased 96 to 126bp in the past 12 months. **The Korpacz Survey also states that market participants are projecting an average value decline of 11%-12% over the next 12 months – some participants are forecasting a 30% value decline.** This is on top of the 30%-35% value decline that has already occurred in many markets.

**INDUSTRIAL** - Employment sectors that drive Industrial demand have lost almost 1.6 million jobs in 2009, with additional losses forecast for 2010. These employment sectors turned negative (i.e. net job losses) in the 4<sup>th</sup> Quarter of 2007. Employment growth generally leads absorption by six months – in fact, industrial absorption turned negative in the 2<sup>nd</sup> Quarter of 2008. We will watch the industrial employment sectors closely in 2009 and 2010 to see if they bottom and start to turn up. Six months after that occurs the industrial market should start to see signs of life. The table below shows **the last four quarters have seen an average loss of 697,000 jobs in industrial sectors.**

## INDUSTRIAL SECTOR EMPLOYMENT - NATIONWIDE

	2008			2009		
	2 <sup>nd</sup> QTR	3 <sup>rd</sup> QTR	4 <sup>th</sup> QTR	1 <sup>st</sup> QTR	2 <sup>nd</sup> QTR	3 <sup>rd</sup> QTR
Quarter Change *	-287	-371	-839	-1005	-572	
4-Quarter Average *				-633	-697	

\* - In Thousands

The CoStar Group forecasts **the national vacancy rate will increase from 8.9% at Yearend 2008 to 11% by Yearend 2010**. Weakness has already been seen with average concessions increasing from 2.5% of asking rent in early 2007 to 5% of asking rent at the end of 2008. Also, **the average time to re-lease a vacated space has increased from 75 days in 2006 to 425 days currently**. A recent study revealed that average space leased by a tenant was 50% less in 2008 than in 2000. Companies are being very careful not to lease more space than they need today or in the near future.

According to the CoStar Group, cap rates are forecast to increase to 10%, which is 300-400bp from their lows. As a result, a 50% value decline is expected for this property type. The latest Korpacz Survey shows cap rates for institutional-grade warehouse properties at 7.93% (up 137bp from a year ago) with a 230bp premium for non-institutional grade warehouse properties. **This indicates cap rates have already exceeded 10% (7.93% + 2.30% = 10.23%)**.

RETAIL – As we forecast a year ago, **banks needed to review their retail center loan portfolio in great detail as the number of store closings will continue to increase rapidly**. Market participants claim the most common activity this year is for tenants to ask owners to reduce their rent. Also, many property owners are reportedly reducing rents (without reporting such on rent rolls) or not collecting rent at all. Their logic is it is better to have tenants and foot traffic than a vacant center. **Reis, Inc. has forecast the national vacancy rate won't top out until 2011** and over half the properties they survey have declining average rents. In general, retail centers should see the greatest value decline of all commercial property types.

**For commercial real estate overall, 2011 is the earliest we should expect to see any upturn in values. Early indications are the industrial segment (warehouse and distribution, not office/flex) will be the first to show signs of improvement.**

### COMMERCIAL PROPERTIES – Owner Occupied

It is likely the increase in cap rates has negatively affected owner occupied properties also. However, our data does not show the decline to be as extreme. We believe this is due to a lag effect – companies are just now starting to accelerate their closings and layoffs and loan renewals are encountering an extreme credit crunch.

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The housing bubble was responsible for significant increases in employment and demand for industrial, office, and retail properties. However, the same factors that played a major role on the way up are now playing a major role on the way down.

As businesses close down or downsize, the demand for industrial, office, and retail properties will decline. This decline is expected to accelerate through the end of 2009 and into 2010 with the retail property market being affected the most.

Banks need to stay on top of their business loan portfolio to determine how many loans are to companies in industries that will be adversely affected over the next 2 years. Real estate collateral may move from a secondary source of repayment to primary source. We have worked with loan review teams that say they have seen quarterly sales for some companies drop over 80%, thus leading to a classified loan without much warning. The normal slow decline in a company's performance may not occur in this cycle – rapid declines may be more common this time around.

## COMMERCIAL PROPERTIES – Vacant Land

Commercial land did not have the bubble that the residential land market experienced. Although we have not seen a significant change in commercial land values to date, more and more appraisals that we review are showing declines up to 50% may be occurring in some markets. This looks to be attributable to market participants discounting values for a holding period of 2 to 5 years before development becomes feasible again. Market participants are discounting commercial land 10%-12% annually for the holding period until development is feasible.

The most significant price declines have been in locations where market participants paid premiums for 'entitled' properties. These areas are finding that these 'entitlements' are being valued at \$0 today and thus significant value declines are occurring. This is more attributable to the 'bubble' mentality that paid outrageous prices for an entitlement that might have cost a few thousand dollars to obtain. We have seen several properties that were sold at 1500%+ price increases between 2003 and 2006 only to experience 90%+ value declines as the entire entitlement premium vanishes.

## MONTHLY TOPIC – Bulk Condominium Valuations

*By George R. Mann, MAI, SRA, MRICS*

As a follow-up to last month's analysis that showed today's values should logically be around 20% to 40% of bubble-level prices, we are presenting some data from recent appraisals that we have reviewed.

For obvious reasons, we cannot disclose the property or the appraiser and we will also keep the State confidential. The appraisals involved properties located all across the country. Some projects were new, high-rise condo buildings and others were failed apartment complex conversions (aka fractured condo projects).

The following two tables compare the current appraised value with either the Gross Retail Sellout (GRS) of all units at bubble prices or Reproduction Cost New (RCN) of the project. Additionally, we show the appraiser's forecasted sellout period and internal rate of return (IRR – inclusive of entrepreneurial profit).

# of UNITS	MARKET VALUE (MV)	GRS – Bubble Prices *	Ratio of MV to GRS	SELLOUT PERIOD (Years)	IRR
37	\$3,400,000	\$9,580,000	35%	2	23%
74	\$5,300,000	\$18,215,000	29%	4	25%
291	\$138,500,000	\$327,800,000	42%	5	25%
346	\$89,300,000	\$237,700,000	38%	6	25%
510	\$20,810,000	\$101,340,000	21%	6	24%
530	\$105,000,000	\$313,460,000	33%	5.5	20%

\* - Depending on the data provided to the fee appraiser, Gross Retail Sellout was based on either the developer's original list prices or the actual prices for units placed under contract back in 2005/2006.

# of UNITS	MARKET VALUE (MV)	RCN – Reproduction Cost New **	Ratio of MV to RCN	SELLOUT PERIOD (Years)	IRR
97	\$50,000,000	\$140,000,000	36%	5	25%
160	\$28,100,000	\$78,000,000	36%	5	25%
219	\$65,000,000	\$147,500,000	44%	5	23%
248	\$31,400,000	\$100,000,000	31%	4	26%
298	\$75,000,000	\$213,000,000	35%	5	20%
304	\$41,100,000	\$110,000,000	37%	5	27%
346	\$89,300,000	\$244,200,000	37%	6	25%
350	\$61,400,000	\$163,000,000	38%	4	23%
700	\$87,650,000	\$227,100,000	39%	7	28%

\*\* - For 'Fractured Condo Projects' we calculated subject RCN as a pro-rata share of the total RCN.

For those who like statistics, you can calculate mean, standard deviation, etc. for the tables above. We just wanted to present some representative data from the 100+ condo project appraisals we have reviewed this year (the above tables are not all inclusive).

As discussed last month, purchases at '20 to 40 cents on the dollar' have been reported for the past year or more. The above tables tend to support that range from the perspective of value. Although the predominant range of value in the above tables is 35% to 40% of project cost or GRS at bubble prices, we note that the appraiser's used IRRs from 20% to 28%. Market participants are indicating 30%-35% is appropriate in some bubble markets. At a higher IRR obviously the ratio of current value to bubble price/cost would be lower.

The analysis we provided last month and the data presented above simply support market activity that has buyer bids in the 20 cent range and sellers not wanting to take less than 40 cents (many not wanting to take less than 80 cents!). The reality is this represents a 100% range between bid and ask prices – thus few sales are occurring.

Hopefully, this range will narrow as more properties are forced to come to market and the large number of buyers sitting on the sideline purchase them quickly. More and more market participants, both buyers and sellers, will accept the reality that both prices and values are in this new range from 20% to 40% of bubble prices. Once that is accepted, transactions should become abundant as many potential buyers can buy with cash and not be hampered by restrictive financing requirements.

We have probably beaten this issue to death so next month on to a new and different topic – which has not been decided on yet. If you have any ideas you'd like to see discussed, please email them to us. We want this market report to address real-world, current issues.

## METRO AREAS OVERVIEW - Birmingham

By Collateral Evaluation Services, LLC

The follow metro area overview primarily addresses recent and future trends of effective revenue (net of concessions and vacancies). In order to translate to value trends, consideration must be given to recent increases in cap rates. Cap rates have reportedly resulted in value declines around 30%-35% since the Summer of 2007.

BIRMINGHAM – Effective Revenue								
YEAREND	APARTMENTS		INDUSTRIAL		OFFICE		RETAIL	
	EGI	CHANGE	EGI	CHANGE	EGI	CHANGE	EGI	CHANGE
2006	\$591	---	---	---	\$12.75	---	\$11.24	---
2007	\$611	+3%	---	---	\$13.99	+10%	\$11.08	-1%
2008	\$611	-0%	---	---	\$14.18	+1%	\$10.68	-4%
<b>2009</b>	\$606	-1%	---	---	\$13.84	-2%	\$10.20	-4%

Source: REIS, Inc.; EGI – Effective Gross Income, CES estimate using REIS data. Average monthly EGI for apartments and average annual EGI per square foot for industrial, office, and retail segments.

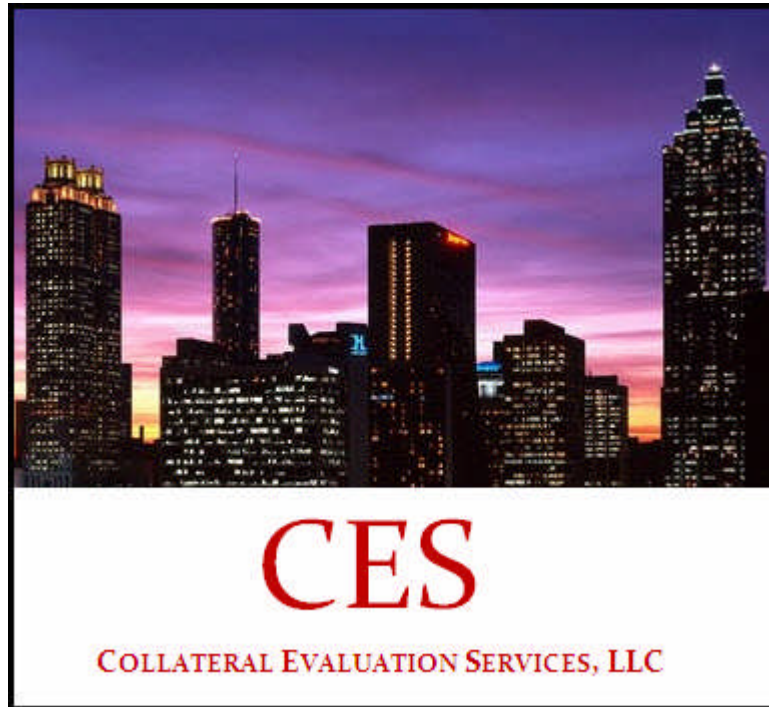
BIRMINGHAM – Vacancy Rates				
YEAREND	APARTMENTS	INDUSTRIAL	OFFICE	RETAIL
2006	5.6%	---	13.7%	11.0%
2007	6.2%	---	10.6%	13.1%
2008	9.0%	---	10.2%	15.0%
<b>2009</b>	9.4%	---	11.4%	16.0%
2010	8.5%	---	12.3%	16.8%

Source: REIS, Inc.; Vacancy rates are average for all classes of properties in apartment, industrial, and office categories; Retail vacancy reflects neighborhood and community centers.

Revenue for Apartment and Office properties peaked in 2007/2008 and are projected to have a small decline in 2009. Apartments are forecast to have a small rebound in 2010, but Office properties are forecast to encounter further weakness. **In general, these two property sectors have performed fairly well in comparison to other metro areas.**

The Retail market has been weak since peaking in 2006. Revenues are projected to decline in 2009 and again in 2010 while vacancies are forecast to increase in both years. **In comparison to other metro areas and National averages, the Birmingham Retail sector is extremely weak with no improvement forecast in the near term.**

According to EGS Commercial Real Estate, the Industrial vacancy rate was 18.6% which was up from 16.8% at Yearend 2008. Average rents have declined 3% year-to-date, also. Continued weakness is forecast for this property sector.



George R. Mann, MAI, SRA, MRICS  
Larry R. Woodall, CGRPA-GA

**Collateral Evaluation Services, LLC**  
1360 Northcliff Trace  
Roswell, GA 30076

804.241.6044

[gmann@ces-wm.com](mailto:gmann@ces-wm.com)  
[lwoodall@ces-wm.com](mailto:lwoodall@ces-wm.com)

[www.CES-WM.com](http://www.CES-WM.com)