

THE SOUND REVIEW

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Welcome to the bottom: Housing begins slow rebound

By Adrian Sainz, David Twiddy, Daniel Wagner, Alex Veiga, The Associated Press (Courtesy of Yahoo! News)

It was — note the past tense — the worst housing recession anyone but survivors of the Great Depression can remember.

From the frenzied peak of the real estate boom in 2005-2006 to the recession's trough earlier this year, home resales fell 38 percent and sales of new homes tumbled 76 percent. Construction of homes and apartments skidded 79 percent. And for the first time in more than four decades of record keeping, home prices posted consecutive annual declines.

A staggering \$4 trillion in home equity was wiped out, and millions of Americans lost their homes through foreclosure.

Now take a deep breath and exhale. The worst is over.

By every measure, except foreclosures, the housing market has stabilized and many areas are recovering, according to a spate of data released in the past two weeks. Nationwide, home resales in June are up 9 percent from January, on a seasonally adjusted basis. Sales of new homes have climbed 17 percent during the same period. And construction, while still anemic, has risen almost 20 percent since the beginning of the year.

Even home prices, down one third from the top, edged up in May, the first monthly increase since June 2006.

"The freefall is over," says Dean Baker of the Center for Economic and Policy Research.

The problem is that, Baker, like many economists, expects the housing market will "be bouncing around the bottom" for the second half of the year.

There are also real threats that could poison this budding recovery. The unemployment rate, which is 9.5 percent, is expected to surpass 10 percent, leaving even more homeowners unable to pay their mortgages. Mortgage rates could rise, making homeownership less affordable. And the federal tax credit for first-time homebuyers, which has lured many into the market, is set to expire on Nov. 30.

"As long as jobs are being lost, regardless of all the federal programs out there to help the borrowers, you're still going to have problems in the housing market," says Steve Cumbie, executive director of the Center for Real Estate Development at the University of North Carolina's Kenan-Flagler Business School.

True, but when you've got bidding wars for foreclosures in places like Las Vegas, Phoenix and Los Angeles, it's time to call the bottom.

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• **Northeast**

Nobody knows the power of a dollar like New Yorkers.

After home on Long Island sat on the market for four months recently, the sellers' real estate agent told them to drop the price from the mid-\$600s to \$599,000. The house sold the next weekend.

In Merrick, about 30 miles east of New York City, homes are starting to sell "as long as they're priced right," the agent said.

In January, with the ground and financial markets still frozen, few would have believed that the worst of the housing crisis in the Northeast would turn around within six months.

But the evidence is clear: home resales in the region in June hit a seasonally adjusted pace of 820,000, up 28 percent from the beginning of the year. Sales of new homes were also up slightly and construction in the region more than doubled.

Even the median sales price of \$249,400 in June was up 10 percent from January and was off just 6 percent from year-ago levels, according to the National Association of Realtors.

"We certainly had our share of problems, but overall the severity of what happened here was far less" than what happened elsewhere, says Michael Lynch, an economist with IHS Global Insight.

Pittsburgh has the region's strongest home market in terms of sales and prices because the city saw less of a housing bubble and the area has 7.7 percent unemployment rate that is below the national rate.

One of the weakest markets, by contrast, was Providence, R.I., where a jobless rate of 12 percent exacerbated the city's foreclosure crisis. Too many residents took out risky subprime loans they couldn't afford when the interest rates spiked within a few years. Today, more than one in 10 homeowners with a mortgage in the state is at least one month behind or in foreclosure.

The Northeast, more than any other region, felt the full force of the credit crisis that reshaped Wall Street. Manhattan's real estate market, long immune from price declines, tanked this year as tens of thousands of people lost their jobs.

Prices of for-sale apartments plunged in the second quarter by the largest amount in decades. Prices have fallen, on average, between 13 and 19 percent, according to four reports published recently by real estate firms.

Northeast states: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont

Data compares June vs. January and June vs. June 2008:

Home resales: up 28 percent; down 5 percent

Median price: \$249,400, up 10 percent from January; down 6 percent

New home sales: up 3 percent; down 11 percent

New home construction: up 113 percent, down 68 percent

Mortgage delinquencies as of March: 10.4 percent

Regional outlook: The region should experience "a nice rebound in home construction" over the rest of the year, according to IHS Global Insight, an economic research firm. Sales for new and existing homes are likely to rise. Just don't expect your home's value to shoot up. Rising unemployment will lead to more foreclosures, and that will keep a lid on prices.

• **South**

The real estate market in the South remains one of extremes.

On one end, are oil-rich cities in Texas, Arkansas and Oklahoma that nearly skirted the housing recession altogether. Tipping the scale on the other side are foreclosure-ridden areas in Atlanta and swaths in Florida where prices are still falling annually by double digits.

Taken as a whole, home resales in the 17-state region rose 10 percent in the first half of this year on a seasonally adjusted basis, and are off just 4 percent from June of last year, according to the National Association of Realtors.

“Generally speaking, the rate of decrease, both in sales and prices, has started to bottom,” says the University of North Carolina’s Cumbie. “But that doesn’t mean it’s going to come roaring back.”

Mass layoffs at Bank of America and Wachovia, for example, have taken their toll in their home state of North Carolina. Home price declines in Charlotte accelerated this year, and home resales in June were off nearly 30 percent from last year.

Home and apartment construction, a key economic engine, will also vary widely across the region. Parts of the South, notably Florida and Atlanta, were vastly overbuilt during the housing boom. So construction in the region rose a meager 7 percent in the first half of the year, the lowest of the four regions, according to the Commerce Department.

There was little reason for builders to start laying new foundations. New home sales fell 2 percent from January to June, the only region in the country to post a decline.

“In the longer term, I’m confident that the real estate market is going to shift where buyers are coming out not only because of attractive interest rates and low prices, but because more people are getting jobs,” says Les Simmonds, president of L.G. Simmonds Real Estate Corp. in Longwood, Fla. an Orlando suburb. “But, as we speak, it’s not right. It’s going to take more time.”

Southeast states: Alabama, Arkansas, Delaware, D.C., Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia

Data compares June vs. January and June vs. June 2008:

Home resales: up 10 percent; down 4 percent

Median price: \$163,200 up 14 percent; down 12 percent

New home sales: down 2 percent; down 34 percent

New home construction: up 7 percent; down 44 percent

Mortgage delinquencies as of March: 12.7 percent

Regional outlook: The southern market has several characteristics that could help it recover, Cumbie says. The population continues to grow and businesses continue to move into the region. But the weight of foreclosures and job losses stretching into next year could delay any meaningful recovery.

• **Midwest**

It’s no surprise that the housing market and the auto industry are intertwined in Detroit, though, this is the first time anybody can remember that you can buy a home for less than the price of a new car.

But step out of devastated towns in Michigan, Ohio and Indiana and the housing market in the Midwest is showing some of the strongest signs of recovery in the country.

Thanks to places like the Dakotas, Iowa and Nebraska, the median sales price in the region rose almost 20 percent to an affordable \$157,000 in June from January levels.

Sales of new homes jumped almost 38 percent in the first half of the year, which encouraged builders to get out their hammers. Construction, which was at a standstill in some communities, rose 86 percent on a seasonally adjusted basis, which accounts for typical variations in weather and other factors.

“New construction has been a good indicator for us in the past of what the general market is doing,” says Chris Collins, president of the Kansas City Regional Association of Realtors. “Our new market is not what we’ve been used to but it’s substantially better than other parts of the country.”

The home resale market, however, remains weaker than the nation as a whole. That again can be blamed on the economy. The jobless rate in the Midwest is 10.2 percent compared with 9.5 percent nationally. And if you don’t have a job you are not buying a house.

William Strauss, a senior economist for the Federal Reserve Bank of Chicago, cautioned that job cuts are still high in the region, and loss of income is the No. 1 reason homeowners default.

“We never got as bad as (other) states but nonetheless we still took a hit,” he says, and the market remains “soft in the Midwest.”

Midwest states: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

Data compares June vs. January and June 2008:

Home resales: up 7 percent, down 2 percent

Median price: \$157,000, up 20 percent, down 9 percent

New home sales: up 38 percent, up 6 percent

New home construction: up 86 percent, down 21 percent

Mortgage delinquencies as of March: 11.5 percent

Regional outlook: “Before we can even talk about the housing sector materially improving, we’re going to have to see these job losses get down quite a bit,” said William Strauss, a senior economist for the Federal Reserve Bank of Chicago. Financial markets must also improve, he said, so more homebuyers can qualify for a mortgage.

• West

For years Las Vegas symbolized the boom, as mile after mile of desert gave way to three-bedroom homes and swimming pools. Then came the crash and it symbolized something else: a decade of speculation and excess.

Now, Las Vegas is one of the hottest housing markets in the region again. This city has always profited from others’ misfortune, and the same can be said of the current housing market.

In Clark County, Nev., home to Sin City, one in every 11 homes had received at least one foreclosure-related notice in June, according to RealtyTrac. The glut of deeply discounted foreclosures has almost doubled sales activity for most of this year.

“In January the market was busy, and since that time, it’s gone a little haywire,” says Brad Snyder, an agent with ZipRealty in Las Vegas. “There’s (sales) activity now that we haven’t seen even since ‘04.” The situation is similar in California’s Riverside, San Joaquin and San Bernardino counties, where one out of every 14 homes was in foreclosure.

After falling 18 percent in the second half of 2008, monthly home prices were flat in the first half of this year, on a seasonally adjusted basis, according to the National Association of Realtors.

Markets like these have seen a surge this year in all-cash buyers, many of them investors, scooping up the sharply discounted properties. It’s not uncommon to see multiple offers on a single property, and that’s helped slow the rate of price declines a little. The demand also has helped whittle down the inventory of homes for sale to the lowest level since the boom.

“We have seen such a steep decline in supply right now, that when a home comes on the market it’s first day there could be seven or eight or 10 people there in a matter of hours,” Snyder says.

To lure buyers away from foreclosures, homebuilders have slashed prices or are simply tearing down vacant homes. New home sales jumped almost 59 percent in the first half of the year, while construction in these grossly overbuilt markets slid 12 percent.

In the Pacific Northwest and states such as Utah, by contrast, housing markets are on a different timer than the rest of the West. Home sales and values held up better and longer while markets in the Southwest were already in decline. These markets also haven't seen as many foreclosures wreaking havoc with home prices.

States in the region: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

Data compares June vs. January and June 2008:

Home resales: down 1 percent, up 12 percent

Median price: \$214,800, flat, down 25 percent

New home sales: up 59 percent, down 10 percent

New home construction: down 12 percent, down 42 percent

Mortgage delinquencies as of March: 12 percent

Regional outlook: The recession remains the region's wild card. Unemployment is at 10.2 percent in the West, but that could go higher if the economy worsens. If that happens, expect more foreclosures and a slower turnaround.

Economy in West showing 'signs of stabilization'

By Puget Sound Business Journal (Seattle) - San Francisco Business Times

The West is holding its own in the recession, according to the Federal Reserve's latest Beige Book report on the performance of the economy.

The Fed's nine-state 12th district, headquartered in San Francisco, showed "continued signs of stabilization or improvement in some sectors," the the report released Wednesday said.

The 12th district report was a little better than reports for other regions, which showed weakness continuing even as the pace of economic losses slowed.

But the report was not entirely rosy for the period of June through mid-July. Retail sales in the 12th district continued to be stalled, as did manufacturing, "although demand and activity improved further for manufacturers of information technology products."

Housing sales and construction picked up in some areas, but commercial real estate continued to fall.

The 12th district includes Idaho, Utah, Arizona, Nevada, Washington, Oregon, California, Alaska and Hawaii.

Pierce, Kitsap apartment markets hold up better

By Daily Journal of Commerce - Seattle

Apartment markets in Pierce and Kitsap counties are holding up better than the King/Snohomish market, according to Tom Cain of the research firm Apartment Insights.

Vacancy in Pierce is 6.3 percent, up from 6.1 percent in the first quarter, Cain said in a news release. The market peaked in the third quarter of 2008, with vacancy at 4.3 percent.

University Place/Fircrest is the tightest submarket in Pierce County, at 5.1 percent vacancy, and Puyallup is the weakest, at 7.9 percent.

In Kitsap County, vacancy is 5 percent. Silverdale is the strongest submarket in that county at 3.3 percent vacancy, and Bremerton the weakest at 6.5 percent, Apartment Insights said.

The firm doesn't have historical data for Kitsap County.

In Pierce and Kitsap counties landlords are offering concessions or incentives of \$31 per month on average, Cain said.

In Pierce and Kitsap counties average rents are \$833 per month. That is 98 cents per square foot in Pierce and 99 cents per square foot in Kitsap, Cain said.

In Pierce, Puyallup has the highest rents, at \$976 per month, or \$1.04 per foot. Rents are lowest in Lakewood, at \$774 per month, or 98 cents per foot.

In Kitsap, Silverdale has the highest rents, at \$957 per month, or \$1.04 per foot. The lowest rents are in Port Orchard at \$750, or 92 cents per foot.

Rents have traditionally been higher in the King/Snohomish County market than in Pierce and Kitsap, Cain said, and this won't change in the foreseeable future. However together Pierce and Kitsap counties are averaging a vacancy rate of 6.1 percent versus 7.2 percent for King/Snohomish, Cain said.

A major factor in the relative health of the Kitsap and Pierce markets is the lack of new construction, Cain said. There are no 50-unit-plus properties under construction in either of those counties, and 633 units in planning stages in Lakewood, Puyallup, and Tacoma South.

In King/Snohomish more than 2,500 units opened in the second quarter alone.

The national vacancy rate for rental housing is 10.6 percent, said Cain, citing a Department of Commerce's Census Bureau report.

Apartment Insights tracks properties of 50 units or more in the Central Puget Sound market.

The Real Estate Adviser: Why deals take longer to close these days

By Tom Kelly, Daily Journal of Commerce - Seattle

It's no secret that many facets of lending and real estate have changed as a result of the credit crisis. In addition to tightened lending practices that resulted from rising mortgage delinquencies, the nation's capital has been heavily involved in altering the way lenders do business today.

Two individual pieces of legislation impacting business need to be taken into account when determining closing dates for purchase transactions.

Home Valuation Code of Conduct. The Home Valuation Code of Conduct went into effect May 1. Intended to shield appraisers from undue influence from loan officers and lenders, this legislation installed a "firewall" between those individuals directly involved in the origination of the loan and the selection of and contact with appraisers.

HVCC also requires that borrowers receive a copy of the appraisal a minimum of three days in advance of closing. Part of the kicker here is that "received" is considered, in effect, three business days after the appraisal has been mailed to the borrower. As HVCC requires a firewall between the originator and the appraiser, the time to receive an appraisal has increased, in some cases by as much as two weeks or more.

While this may not always be the case, it is important to take into consideration when considering closing dates. Today, conservative closing dates are mandatory to properly manage expectations of all parties.

The law specifically prohibits lenders from accepting appraisal reports completed by an appraiser "selected, retained or compensated in any manner by mortgage brokers and real estate agents." Lenders may use appraisal management companies to obtain appraisals as long as they comply with the requirements of the new law.

While the law prohibits the acceptance of completed appraisals by lenders involved, it does not forbid communication. According to the language of the new law, there is nothing prohibiting the lender (or any third party acting on behalf of the lender) from requesting that “an appraiser (i) provide additional information or explanation about the basis for a valuation, or (ii) correct objective factual errors in an appraisal report.”

An appraisal is an unbiased estimate of what a buyer might expect to pay (or a seller receive) for a parcel of real estate, where both buyer and seller are informed parties. To be an informed party, most people turn to a licensed, certified, professional appraiser to provide them with the most accurate estimate of the true value of their property.

The new law is the result of some lenders providing pressure on appraisers to “come in with the right numbers” to match the purchase price or loan value. The legislation separates those individuals directly involved in the origination of the loan from the selection of and contact with appraisers.

Housing and Economic Recovery Act. This act amends and impacts several aspects of obtaining a mortgage, the disclosures required for borrowers, and the timing of their delivery. This impacts the minimum time required to close, and should any changes be made to a loan application that could impact the Annual Percentage Rate (APR), this could impact the closing date.

Other than paying for a credit report, lenders may not accept any additional fees from a borrower until four business days after disclosures have been provided to or mailed to a borrower. This has the potential to delay several aspects of the application process.

Finally, upon making application, a borrower is provided a Truth in Lending (TIL) statement, detailing the total expected costs that could be incurred over the life of the loan. Should anything change in the loan application that could change the APR by more than .125 percent, a new TIL must be reissued to the borrower a minimum of three business days before closing. Items impacting the annual rate could include a borrower accepting a higher interest rate than initially qualified by floating their rate at application, a change to the loan amount, a change in product, a change in closing date, and any changes to fees.

While there is more to be learned soon regarding the specifics of these legislative implications, make sure you allow ample time to close your residential transaction. Consumers should remember that the real estate landscape has changed in nearly every respect. Change takes longer, including the closing.

Construction forecast: 'It's going to look like recession' for a while

By Benjamin Minnick, Daily Journal of Commerce - Seattle

Three economists who spoke last week about the construction industry agreed on two things: The single-family housing market apparently has bottomed out and the nonresidential market will continue to slide.

They spoke at a Webcast organized by groups involved with design and construction. The speakers were: Ken Simonson of the Associated General Contractors of America, Kermit Baker of the American Institute of Architects and Jim Haughey of Reed Construction Data. All are chief economists for their respective organizations.

Haughey said foreclosures are getting worse and the housing market is still struggling, but it will eventually pick up. Housing starts are “just about at the bottom now,” he said.

“The market has clearly stabilized and we expect to see some modest growth ahead, but it's going to be a situation where if you're looking at the level of activity, it's going to look like a recession for another year and a half,” he said.

Simonson said existing home sales were up in June, as well as building permits and housing starts, which bodes well for the single-family housing market. Home renovation work is also improving, he said.

But the multifamily market is still in decline and may get worse, he said, so don't expect any improvement until 2011.

Baker said there are conflicting signals in the single-family market. Here's the good news: Housing is much more affordable due to price drops, low interest rates and tax credits; and new and existing homes sales numbers look like they have bottomed out. Here's the bad news: Inventories of unsold new homes are still high and there are between 750,000 and 1 million for-sale vacant homes; foreclosures are growing and will likely continue if house prices continue to decline; and short sales are growing, with more than 30 percent of homes being sold for less than what was owed on the mortgage.

Lack of confidence

Haughey said layoffs and lack of consumer confidence are bigger problems for the economy.

"Consumer confidence has not risen as much as we have anticipated," he said.

"We're not going to get back to the early 2006 level of construction spending at the peak of the housing boom (for about three years)," he said.

Haughey said tight credit is modestly restricting spending but there is enough to meet the lower demand. He predicts tighter credit and a slight rise in interest rates, possibly later this year but more likely in early 2010.

Recovery will pick up this summer but then growth will be sluggish for the balance of this year, next year and a little bit beyond, according to Haughey. He said trouble in non-residential markets will deepen because starts in that market plunged in June. Construction spending will likely continue to decline for the rest of this year and maybe into early next year.

In the past 12 months, overall construction spending has dropped 12 percent.

Haughey said problems in the private construction market will increasingly creep into public construction, which is funded by diminishing taxes.

"This is a disaster for state and local governments, since (it's) on a bigger scale than what happened in the earlier part of this decade," he said.

Stimulus rescue?

Simonson said the \$787 billion economic stimulus package should help construction to a degree, but it won't offset the drop in private construction or tax revenues.

"(The stimulus) should be making a difference. Unfortunately it's coming at a time when construction is shrinking so rapidly (and) we are still the industry that is losing the most jobs," Simonson said.

About \$135 billion of the stimulus money is going toward construction projects, including \$49 billion for transportation, \$35 billion for buildings, \$30 billion for energy/technology work and \$21 billion for water/environmental projects.

"Highway is far ahead of the rest of the construction stimulus money in actually turning into contracts and keeping projects going on," he said.

Simonson said building projects in the stimulus package are spread among many agencies, which haven't followed through to get the money as quickly as hoped. Agencies, including the National Parks Service, were listing hundreds of projects just last March that they planned to spend stimulus money on, he said.

Outside of highway projects, Simonson said there should be a significant increase in stimulus funding in the second half of this year.

Haughey said the federal stimulus plan probably boosted gross domestic product by 2 to 3 percent in the quarter that ended in June. It will have a similar impact on the current quarter, which ends in September, then will start to taper off.

Haughey said the stimulus plan is probably working, but President Obama and Congress don't know how to measure it.

Spending falls 11%

Overall construction spending is expected to drop 11 percent this year, but rise 2 percent in 2010, according to Haughey. Housing will be the bright spot next year, with a projected 10 percent jump. Nonresidential spending is expected to drop 2.2 percent, while heavy construction is expected to rise by 1.9 percent.

Haughey said the outlook for nonresidential construction in 2011-13 looks more promising. Retail construction spending is expected to drop 22 percent this year, but be the first to recover in the nonresidential sector. Expect a 6 percent increase in retail construction spending next year, he said.

Commercial construction spending is expected to drop 17 percent this year, but rebound to a positive 2 percent in 2010, Haughey said. Institutional construction spending is expected to drop 3 percent this year and rise that same amount next year. Heavy construction will have similar numbers, with a 2 percent drop this year and a 2 percent gain next year.

Future projects

One indicator of future construction activity, AIA's Architectural Billings Index, is not encouraging.

Baker said the index had a dramatic decline over the last 18 months, producing the lowest numbers in its 15-year history. A low of 33.3 was recorded in January and the latest numbers are in the 37-38 range. A number above 50 indicates an increase in design activity and a number below indicates a decrease.

Another statistic followed by AIA is inquiries about new projects at architectural firms. Baker said that number has been surprisingly positive over the last four months, but no new work has resulted. The increase in inquiries is because project owners are seeking more architects to compete for their work.

Baker said architecture and construction firms are some of the hardest hit employers. Since the recession began, jobs overall are down by 5 percent, but the construction industry has lost almost 20 percent and the architectural industry 15 percent. The number of lost jobs has already exceeded the losses of the prior two recessions, he said, and there is no sign that the bottom has been reached.

Simonson said A/E employment had been growing a year ago, but is now dropping at an accelerating rate.

"That's very ominous for future construction work," he said, predicting another nine to 12 months of declining construction employment.

Another worry for the industry is the price of construction materials. Simonson said prices this year have fallen overall by about 4 percent, but there could be a jump next year.

Simonson said to look for possible increases in concrete and gypsum prices, but steel could run into resistance. Asphalt prices are uncertain at this point, he said.

Haughey also is expecting prices to rise in 2010 as the economy gets stronger and as demand picks up internationally.

Borrowers to Banks: Show Me the Money

By Christina S.N. Lewis and Peter Grant, WSJ.com

Hundreds of developers and builders battling banks to keep their funding spigots open on construction projects are taking heart from a major defeat suffered by Citigroup Inc. in its court battle with the developer of Destiny USA, an innovative mall being built in Syracuse, N.Y.

A New York state-court justice last week ordered Citigroup to keep making payments on its \$155 million construction loan on the first phase of Destiny, which had been on track for completion by the end of this year. Citigroup said in court filings that the project was a "failure" because of weak leasing and that the bank stopped funding because developer Robert Congel failed to kick in \$15 million of additional equity as required under the loan.

Supreme Court Justice John Cherundolo ruled that Mr. Congel's side provided "unrebuttable and undeniable" evidence that Citigroup's claim was erroneous. He also suggested that Citigroup might have tried to get out of its funding commitments because it needs to preserve capital. Given Citigroup's receipt of some \$44.5 billion in bailout money since the financial crisis began, "the defendant surely cannot be immune to liquidity issues," the judge wrote in his ruling.

Citigroup has appealed the decision, denying that it reneged on any commitments because of financial problems. The company had a \$4.3 billion profit in the second quarter but net losses in five of the past seven quarters.

An appeals court has stayed the ruling that Citigroup has to resume funding until it hears arguments next month.

The clash over the Destiny project, which could have a price tag of as much as \$6 billion, is one of the many that have erupted between developers and creditors as the commercial real-estate market is laid low by the recession. While each case is different, the broad outlines are often the same: Banks demand that developers put in more equity because of falling real-estate values or cost overruns.

Developers then counter with accusations that lenders are using sliding values and weak demand as excuses to halt their funding obligations. "We call them contrived defaults," says Mick Pattinson, spokesman for a group of 200 builders, mostly from California, who have organized to push back against the banks.

Another member of the group, Tom Dobron, has sued City National Bank, a unit of City National Corp., for breach of contract after the Los Angeles bank failed to extend \$15 million remaining on a loan related to the development of a 597-lot housing project in California's Imperial Valley. City National's effort to enforce a personal guarantee on the loan triggered scores of other lawsuits and forced him to lay off 85 workers, Mr. Dobron says.

Borrowers are particularly sore at banks like Citigroup that have received federal bailout funds. "They got \$400 million in TARP," said Mr. Dobron, referring to City National. "They just put it in the vault and never used a cent of it."

City National declined to comment on the litigation with Mr. Dobron but said it was "absolutely confident" it acted appropriately. A bank spokeswoman also noted that overall lending was up 2% in the second quarter, with about \$1.5 billion in loan renewals and about \$900 million in new loan commitments.

In another high-profile battle, the developer of Las Vegas's Fontainebleau casino resort in April filed a \$3 billion lawsuit against its lenders alleging they reneged on loan commitments. That fight was moved to bankruptcy court in June after the project sought Chapter 11 protection.

The Destiny project is being closely watched in the retail world because it has been touted by its developer and Citigroup for breaking new ground in green technology and retail concepts. Mr. Congel has been trying to lure tenants by including merchandise-tracking systems in the mall that would give retailers unparalleled information on consumer shopping patterns. A 74-year-old veteran of many real-estate battles, Mr. Congel sees Destiny as an important part of his legacy.

But Destiny is struggling in the adverse retail climate. The developer hasn't announced any leases, even though the project's 900,000-square-foot first phase was scheduled to open by the end of 2009. Most shopping-mall developers usually are much further along in leasing at this stage of construction.

In his decision, Justice Cherundolo said that the leasing problems weren't sufficient grounds for Citigroup to stop funding the construction loan. "The defendant seeks to rewrite the loan agreement," the decision said, noting that the loan documents don't call for a financial hurdle related to net operating income until January 2010. "There is ... no requirement at this stage the project be a success or otherwise."

Justice Cherundolo also ruled that Citigroup erred by including leasing expenses when calculating how much more needed to be spent on Destiny's first phase. "At a time when the parties were presumably negotiating in good faith, the defendant took it upon itself to hastily declare a default," the judge concluded.

Receivers' Catch: Foreclosures

By David A. Graham, WSJ.com

Some banks are starting to bypass foreclosure on large, troubled real-estate developments and instead are throwing the properties into receivership, a move intended to reduce some of the headaches associated with taking over problem assets.

When banks foreclose on delinquent borrowers, they often plan to sell the property to new owners. But while holding the properties, banks are required to maintain them and pay all fees and taxes associated with the real estate. In some towns, banks that hold foreclosed residential property may be fined as much as \$1,000 a day for code violations or even be subject to arrest.

To avoid those hassles, some banks are asking courts to appoint receivers for large projects, especially residential developments in California, Arizona, Colorado and other Western states. The aim is to have the receiver, not the bank, eventually sell the property. By keeping the bank's name off the title of the property, the bank hopes to stay out of trouble with the law.

"The fact is we are seeing a number of banks that don't want to get in the chain of title," says Douglas Wilson, a receiver in San Diego. He and other receivers report that business is booming. A trade association, the California Receivers Forum, has seen its membership increase to 550 today from 300 in 2007.

Banks have long used receivers to work with properties owned by borrowers in default, but their role was typically making sure utilities stayed on and thieves and squatters stayed out. Now, some banks are expanding the role of receivers by hiring them to also ready properties for sale and to handle dispositions.

"They're putting in receivers with much more proactive roles -- not just collecting money" from tenants, Mr. Wilson says. And since receivers are officers of the court, they can get some things done more quickly, such as getting permits or hiring contractors.

The cost of hiring a receiver can be a drawback. Receivers are paid with creditor funds -- sometimes at great cost. In addition to hourly rates starting around \$250, receivers employ staffs of their own and may choose to hire on-site property managers or contractors to complete developments. Dozens may be needed for larger projects.

Hiring a receiver to sell a property also means that banks relinquish some control over the sale prices, although courts often work with banks to set minimum amounts. In addition, banks have more control over proceeds from a sale in a foreclosure than they do when a receiver sells them. Spokesmen for Citigroup Inc. and GMAC LLC said they don't use receiverships often because of the expense.

But Wells Fargo & Co. and Bank of America Corp. are giving lots of new work to receivers, according to industry participants. Wells Fargo declined to make anyone available for comment, but a Bank of America spokeswoman said the bank uses receivership because it is efficient and avoids disputes among multiple creditors.

The bankruptcy of WL Homes LLC exemplifies the trend. The company, parent of John Laing Homes, was one of the West Coast's biggest home builders during the real-estate boom. But after its Dubai-based owner, Emaar Properties PJSC, cut off funding, it filed for Chapter 11 bankruptcy-court protection in February, then Chapter 7 liquidation in June.

After the bankruptcy, Bank of America found itself with collateral comprising 31 separate assets in 19 locations across California, Arizona and Colorado from one \$130 million loan. The properties ranged from raw land to partially completed developments to half-filled condominium buildings, meaning the bank would have to deal with everything from hiring contractors to wrangling with upset and cash-strapped homeowners' associations if it foreclosed.

And by taking the title on the building, Bank of America could be liable for any construction defects for a decade in California or for any injuries on unsecured construction sites.

Rather than deal with the litany of issues, Bank of America turned to Taylor B. Grant, a veteran real-estate receiver based in Newport Beach, Calif.

"It is extremely complicated," Mr. Grant says. But he adds: "Anything that we've seen, we've seen before."

Since his June 10 appointment, Mr. Grant has visited the properties and hired asset managers, and is deciding how to dispose of the holdings.

Some tasks are mundane, like making sure fire alarms and security systems have power connected. Otherwise, he says, "on Friday they strip the copper, and Monday it's a meth lab."

He also will begin deciding whether he can get a better value from hiring contractors to finish partially completed homes or from tearing them down and selling vacant lots. After that, he will be able to sell the properties and distribute proceeds proportionally among creditors.

REIT Rally Facing a Challenge

By Larry Light, WSJ.com

While housing may be nearing a bottom, commercial real estate likely has much further to fall. And that could snuff out a significant rally in real-estate-investment-trust stocks.

REITs, which own everything from office buildings to strip malls, have seen their shares rocket 60% since hitting an 18-year low on March 6.

Now REITs face at least two years of crushing debt maturities, sliding property values, dwindling occupancy and weakening earnings. These are major obstacles for their shares to overcome.

REITs, which took off in the early 1990s when many private-property owners went public, used to be pitched as something in between a stock and a bond. Over time, most of the gains investors get from REITs come from their high dividends. And REITs pay no corporate income tax as long as they pay 90% of taxable income to investors as dividends. But, in the short run, REITs have turned out to be surprisingly volatile. The sector lost 57% from last Sept. 30 to March 31.

A lot of the current market rebound stems from relief that the dire forecasts for REITs in late 2008 and early 2009 didn't come true. Thus far, General Growth Properties Inc., a debt-laden mall owner, is the lone big REIT to file for bankruptcy. Many REITs improved their financial standing by cutting dividends and raising fresh equity capital, further heartening the market.

But those moves mightn't be enough in light of the challenges ahead. "Additional shocks are coming over the next six to 12 months," says Robert Arnott, chairman of financial strategy firm Research Affiliates LLC.

REITs must refinance a daunting \$152 billion in debt through 2013. Some REITs have crushing debt levels, such as office landlord Maguire Properties, with 94% debt to capital. Anything much above 60% is considered onerous. Another office REIT, Kilroy Realty, has had tenant outflows that have whittled away its occupancy rate to near 85% -- the minimum level allowable under its loan covenants. Kilroy had to get its banks to waive them.

To be sure, some REITs could still do well, even if the sector as a whole suffers. Green Street Advisors, a REIT research firm, notes that some trusts sport strong fundamentals that should make them long-term winners: Simon Property Group in regional malls, Avalon Bay Communities in apartments and Liberty Property Trust in offices and industrial. Although all three have seen tenant occupancy slip, their debt loads are at a comfortable 50% of capital or slightly below.

The bullish view on REITs is that many of them have gone through the worst, and 2010 should mark an upturn. The spate of recent capital raisings "bought them time to get through the recession," says Tom Bohjalian, senior vice president at Cohen & Steers, a real-estate investment firm.

As a whole, however, the sector doesn't look cheap any more. A big reason to buy REITs, their superior dividend yields, has worn away, thanks to rising share prices. In the spring, yields averaged around 10%, says researcher SNL Financial. Now they are down to 4.7%, below many investment-grade corporate bonds.

Despite REITs' current rise, the Dow Jones Composite REIT Index is still down almost two-thirds from its February 2007 peak. Owing to a horrendous first quarter of 2009, REITs are off 5.2% year-to date, versus a 4.5% gain for the Dow Jones Industrial Average.

"REITs have out-performed recently, but off a very low bottom," says Ross Smotrich, head of REIT research at Barclays Capital. In the winter, he says, "the stocks were trading as if the REITs were all going insolvent."

REITs have received nowhere near the federal support that the financial-services industry has enjoyed. A Federal Reserve program offering financial backing for debt, called the Term Asset-Backed Securities Loan Facility, or TALF, has just started for commercial real estate. Even though some big REITs like Vornado and Developers Diversified are expected to benefit from the program, some others are too leveraged to qualify under the Fed's standards.

Meanwhile, commercial-property owners have dimmer prospects for recovery than their residential brethren. The long housing slump has shown signs of ending, with home prices in many markets nudging up lately, partly because residential real estate now offers so many bargains. REITs, however, operate on tougher terrain.

Unlike houses, whose mortgage terms typically are 15 or 30 years, REIT debt often matures after three to seven years and must be rolled over -- hard to do when credit is tight. Only four REITs have issued unsecured debt this year, according to Fitch Ratings, paying pricey yields between 7% and 10.75%.

"Housing stocks peaked in 2005 and REITs in February 2007, so REITs have two more years in their recovery cycle," says Samuel Lieber, president of Alpine Woods Capital Investors LLC, an asset manager that invests in real estate.

Crisis at Opus Signals Trouble at Private Developers

By Christina S.N. Lewis, WSJ.com

Opus Corp., until recently one of the largest private real-estate developers in the nation, is facing the biggest crisis in its 56-year history, showing how the recession is humbling even companies once regarded as well-managed.

The problems of Opus also could be an early indicator of trouble brewing for private real-estate companies, whose struggles often remain quiet until they end up in court.

"The question is, is Opus the canary in the coal mine," said Stephen Blank, a senior resident fellow for real-estate finance with the Urban Land Institute. "There are any number of large private developers, who have the same potential issues."

Opus, run by Minnesota's Rauenhorst family, has been one of the most active so-called merchant builders, which develop commercial properties, lease them to corporate tenants and then sell the properties to investors.

It was a business model that worked well for decades, until the credit crunch scared away tenants while leaving Opus with short-term debt it couldn't refinance and dozens of completed construction projects that it couldn't sell.

In the past several months, Opus has sought bankruptcy-court protection for three of its five regional operating companies.

Phoenix-based Opus West, the company's West Coast division with dozens of shopping centers, office complexes, industrial buildings and condominiums across California, Arizona and Texas, filed under Chapter 11 of the bankruptcy code last week, listing \$1.28 billion in assets and roughly \$1.46 billion in debt. Opus East, in Washington, filed under Chapter 7 bankruptcy liquidation on July 1, with about \$238 million in assets and \$502 million in liabilities, and Atlanta-based Opus South filed under Chapter 11 in April, facing expirations on \$324 million in bank loans.

The company's remaining divisions, Opus North, based in the Chicago-area, and Opus Northwest, in Minnetonka, Minn., the company headquarters, are still running and aren't expected to file for bankruptcy-court protection, according to Opus.

"Our business model works as long as the project that we're building is sold," said Dan Nicol, senior vice president and general counsel for Opus. "What happened to us is the assets could no longer be sold, and we had short-term debt that we couldn't refinance."

The company has set a late August date to auction the bulk of its Western properties, including The Shoppes at Chino Hills, a 380,000-square-foot open-air shopping mall on the edge of Orange County, Calif., with debt of \$106 million.

Opus is hardly the first major developer to end up in bankruptcy court because of the growing problems in commercial real estate. But unlike many other troubled companies, Opus was widely viewed as well-run and conservative.

“I think they just got caught in that proverbial perfect storm,” said Chuck Moody, a director with Atlanta-based Barry Real Estate Cos., who for nine years was Opus’s southern region marketing director before leaving in 2007.

Founded in 1953 as Rauenhorst Construction Co., Opus grew from a suburban Minneapolis general contractor into a full-service developer with its own team of designers and engineers and offices in 28 cities.

In 1999, it completed construction on Minneapolis-based Best Buy’s global headquarters. It also built a one million square foot Minneapolis skyscraper for American Express Financial Advisors, now known as Ameriprise Financial Services Inc. since it was spun off from American Express Co. in 2005.

In this decade, Opus expanded aggressively into other sectors: building condominiums in Southern California and Florida; shopping malls in Minnesota, Oregon and Texas; and industrial warehouses outside Atlanta.

It also started building more speculative office buildings, which are those that have no agreed-upon tenant.

Now, some of its most valuable properties have an uncertain future, including Hill Country Galleria, a \$192 million mixed-use development in Bee Cave, Texas, outside Austin. In April, 10 lenders led by Bank of America Corp., filed a lawsuit against Opus West claiming \$160 million in unpaid loans and other debts relating to Hill Country Galleria.

Opus subsidiaries have filed some lawsuits of their own, including one against the U.S. General Services Administration over a planned 280,000-square-foot campus for the National Oceanic and Atmospheric Administration on the University of Maryland Campus in College Park, Md.

Opus Chief Executive Mark Rauenhorst declined a request for an interview, citing continuing negotiations with lenders.

The company plans to continue operating, but in a much smaller form, according to spokeswoman Winston Hewett.

Mastro’s plight threatens private investors

By Jeanne Lang Jones & Kirsten Grind, Puget Sound Business Journal - Seattle

Developer Michael Mastro Sr. owes \$103 million to 88 private investors — including many in Seattle’s tight-knit Italian-American community — who could lose money if Mastro is forced into involuntary Chapter 7 bankruptcy by three of his creditors.

The Washington Department of Financial Institutions (DFI) has launched an inquiry into Mastro’s private loans after receiving an anonymous complaint in February, said Suzanne Sarason, the state agency’s chief of enforcement for the securities division.

Mastro’s private investors include individuals, local churches and organizations such as the Italian Club of Seattle, according to court records and the DFI, which disclosed the total number of investors and how much money they invested. The DFI did not provide details on which churches are involved, the names of investors or how much money each invested.

The Italian Club’s \$100,000 loan to Mastro represents about a quarter of its savings, according to the nonprofit’s Form 990 tax report from 2007, the most recent year available.

Joseph Galluccio, the club’s treasurer, said: “It’s not everything we have — we have CDs in the bank — but it would hurt us, of course,” if Mastro were unable to repay the loan.

Mastro, who heads Mastro Properties in Seattle, also owes approximately \$500 million to more than 25 local and regional banks, such as Wells Fargo and HomeStreet Bank. Mastro values his assets at more than \$600 million and previously indicated he expects to recover from his current troubles.

Tom Kenyon, Mastro Properties' chief financial officer, declined to comment. Thomas Bucknell, Mastro's attorney, did not respond to telephone calls.

In a letter earlier this month to the Puget Sound Business Journal, Bucknell said Mastro is "making great progress" toward paying his obligations and maintaining his business in a difficult economy.

The debt held by the private investors is largely unsecured by collateral, the DFI's Sarason said, which could mean that the 88 investors might lose everything if Mastro is forced into involuntary bankruptcy.

Three community banks owed a total of \$9 million recently filed suit in U.S. Bankruptcy Court in Western Washington to force Mastro into Chapter 7 bankruptcy in an attempt to recoup their loans.

Commercial bank loans typically are secured by collateral such as deeds to properties, which means they would be first in line to be paid if Mastro were forced into involuntary Chapter 7.

But the recession and the credit crunch are making it harder in general to sell commercial real estate and are forcing down prices, said Danial Pharris, a bankruptcy attorney with Lasher Holzapfel Sperry & Ebberson in Seattle.

"We're seeing situations where there's not enough value in the property to pay even the full amount owed to the first lender, so the second lender may not get paid at all," Pharris said.

The potential loss to individuals and organizations who invested in Mastro show the far-reaching effects of the prominent developer's financial troubles. Mastro, like other Puget Sound region developers, ran into problems when the housing market collapsed and the recession took hold, making it difficult for him to sell property and raise the cash that he needed to stay current on his loan payments.

The Italian Club was receiving an interest rate of 9 percent on its \$100,000 loan, initially made to Mastro in 2005, according to the nonprofit's latest Form 990 tax report. Galluccio, treasurer of the club, said the investment was made before he took the position.

"I've been questioning it for a long time, but the people in the club know him much better than I do," Galluccio said of Mastro. "I question the investment only because — the way things were — who gives 9 percent? Their retort was, 'He owns so many properties in the Seattle area, he's a former banker himself, the last thing he'd want to do is stiff the club.'"

Many club members remain loyal to Mastro. He served as president of the Italian Club in the early 1960s, according to the club's website.

"He's been very supportive of us," said Brian DiJulio, a past president of the Italian Club and a current trustee. "He's probably given us more money for our events than he owes us."

The majority of Mastro's private investors hold unsecured promissory notes — essentially IOUs under which borrowers agree to repay loans under set interest rates. The terms of most of Mastro's promissory notes also require the developer to repay the principal on demand, said Sarason of the DFI.

Some private investors have demanded that Mastro repay those notes in full.

Several members of the Colello family of Seattle, Federal Way and Nevada recently sued Mastro in King County Superior Court to recoup more than \$4 million in loans with interest rates of 9 percent. Before they sued, the investors' attorney sent a letter to Mastro, asking for repayment of their principal and interest. In a July 17 letter replying to Joseph and Gayle Colello's attorney, Mastro said he was "unable to comply," although he acknowledged the debt amount, according to court records.

"Joe is aware of my situation," wrote Mastro, "and I will pay as soon as I possibly can."

The Colellos were receiving their monthly interest payments of \$17,835 on Mastro's loan but want their \$2.2 million in principal back, according to Joseph Colello. Colello said Mastro is not in arrears on his interest payments, but he declined to comment further on the lawsuit.

Other investors include Rick Leavitt, a Seattle home builder who said he's a personal creditor of Mastro. Leavitt declined to say how much he's owed.

Mastro is not registered to sell securities personally, but developers can apply for an exemption under Washington state law that would let them make private placements without needing to register, according to the DFI securities division.

Mastro has until Aug. 4 to reply to the banks' petition for a Chapter 7 involuntary bankruptcy, or the bankruptcy will take effect, leaving it up to a bankruptcy trustee to sell Mastro's assets and divvy up the proceeds among his creditors.

The DFI, meanwhile, is looking into Mastro's debt before it decides if regulatory action is necessary.

"We're just trying to get the facts," said Sarason. "When there are enough facts, then we'll make a decision."

Real Estate Buzz: Douglas Howe: Seattle office market is 'somewhere between dismal and disaster'

By Daily Journal of Commerce - Seattle

Seattle-based Touchstone Corp. is a major Puget Sound region real estate developer. Despite the economic downturn and fallout from the credit crunch, Touchstone President Douglas Howe said the firm is acquiring sites and doing pre-development work on a number of projects.

"I think you'll see more resiliency in the Seattle-Bellevue, the Puget Sound markets" than in some other areas of the country, he said. "It's still a place where the underlying fundamentals are strong. It's still a place where the major institutional investors want to be invested long term."

They look at Seattle as a global gateway with a major airport, growing industries, strong employment drivers, tourism, and the young, well educated people knowledge-based employers want. "Follow the brains," he said. "The brains still come here." But in the short run, Howe acknowledges the local commercial real estate market is hurting.

In Touchstone's case, it completed the \$185 million, 520,000-square-foot West 8th tower in the Denny Triangle this month with all 490,000 square feet of office space in it vacant. And there's a lot more spec space coming on line downtown. GVA Kidder Mathews reports that 2.3 million square feet of spec construction will have been delivered by the first quarter of 2010, and rents in the new space are easily 30 percent below what owners projected when the buildings were planned.

When West 8th broke ground in January of 2007 downtown office vacancy was 9.9 percent, according to Cushman & Wakefield data. It's now 14.7 percent, and some see it hitting 25 percent by mid-next year.

Howe said the market is "somewhere between dismal and a disaster." He sees rents continuing to fall, although he said there is some underlying demand.

The downtown Seattle market went from a "perfect scenario" in the third quarter of 2007 to a "perfect storm" a year later, Howe said, as the global financial crisis hit and the former Washington Mutual imploded. Tenants were expanding, now they're staying put or contracting.

"It's going to be a long slog back for the CBD market," he said. "It's ugly."

Howe describes himself as a "consummate contrarian," and said Touchstone continues to look for development opportunities, acquire sites and do pre-development work in anticipation of the inevitable recovery.

Here are some of the projects Touchstone is working on:

- Two 150-room hotels, to start construction in the third quarter of 2010: Marriott Courtyard in downtown Everett and Marriott SpringHill Suites in Issaquah.

• A boutique hotel/upscale apartment complex at 1900 First Ave. near Pike Place Market, to start by the second half of 2010. The 110-room hotel will have 15,000 square feet of restaurant and retail space around a courtyard, and 70 apartments, with hotel service available to residents. Olson Sundberg Kundig Allen Architects designed the 12-story complex with two decks, a rooftop pool, dog run, and an underground automated parking system for about 240 cars. Touchstone is teaming with Robert Thurston of Inn at the Market fame. Touchstone's project is designed to complement Thurston's hotel.

• A mixed-use development with 220,000 square feet of office space and a 250-room hotel on a close-in Eastside site Touchstone has under contract. Howe would provide no other details.

Howe said demand for hotels should pick up as the economy begins to recover and business and leisure travel gets a lift starting in 2012.

"We think hotels are going to be an early-cycle product where there's opportunity," he said.

• A 450,000-square-foot office complex on a half block bounded by Stewart and Howell streets, Boren Avenue and an alley — land that Touchstone has been assembling for years. The firm will "at the appropriate time" bring in a financial partner, as it does on all its large projects, and won't move forward without substantial pre-leasing, Howe said.

Potential tenants had shown interest, he said, "but obviously in the last 12 months that evaporated. Everybody's gone into a hole."

• Redevelopment of Kirkland Parkplace, the retail and office complex on the east side of downtown Kirkland near Interstate 405. The firm anticipates starting work as early as mid 2011 on the first phase. Prudential Real Estate Investors is the financial partner.

The 11.7-acre site now contains 250,700 square feet of space that eventually will be demolished. The project will include a 200-room full service hotel, a 30,000-square-foot sports club, 20,000 square feet of childcare space, 300,000 square feet of retail, and 1.2 million square feet of technology office space geared to large Eastside employers, such as software, game development and telecommunications companies.

It will be constructed in two to four phases and have mostly eight-story buildings.

The first phase, likely on the northeast corner of the site at Sixth Avenue and Central, will have 500,000 square feet of office space and up to 100,000 square feet of retail, including a mostly below-grade 55,000-square-foot QFC store, replacing the store already on the site.

• The firm plans to start construction in the next 24 months on a build-to-suit project at 3301 Densmore Ave. N. on Lake Union if it gets substantial pre-leasing. The 228,000-square-foot Northlake Technology Center will have retail, a public viewing area and other pedestrian amenities.

• Touchstone is pursuing sites in Seattle and the Eastside for projects that could include office, hotel, retail or be mixed-use.

"You won't see us being a major residential or condominium developer anytime soon," he said. "I think we'll stay (in) employment center, employment-driven development."

Touchstone has had a number of recent successes. It sold Children's Hospital a biotech/research and development building and a development site in downtown Seattle for a research institute. And in 2007, Apple Seven Hospitality bought Touchstone's Kirkland Courtyard Marriott hotel for \$31 million.

Howe's partners in Touchstone are Jim O'Hanlon and Shawn Parry. The firm was founded in 1982.

These days in the development community, Howe said, "the gloom is so thick out there you can cut it with a knife." But commercial real estate moves in cycles.

"So obviously we're anticipating that rebound and pre-developing (for) the next cycle," Howe said. "We could be right or wrong. Probably half and half."

Other investors include Rick Leavitt, a Seattle home builder who said he's a personal creditor of Mastro. Leavitt declined to say how much he's owed.

Mastro is not registered to sell securities personally, but developers can apply for an exemption under Washington state law that would let them make private placements without needing to register, according to the DFI securities division.

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"We're just trying to get the facts," said Sarason. "When there are enough facts, then we'll make a decision."

Cascade Financial shares tumble after bank reports \$22M Q2 loss

By Puget Sound Business Journal - Seattle

Shares in Cascade Financial Corp. tumbled more than 8 percent in Tuesday trading, a day after the Everett bank reported a second-quarter loss of \$22 million, or a loss of \$1.81 per share.

That compared with net income of \$3.6 million, or earnings of 30 cents a share, a year earlier.

Cascade (NASDAQ: CASB) recorded a \$11.7 million charge in the latest quarter and a provision for loan losses of \$18.3 million.

"Like many other Northwest banks, the prolonged downturn in the residential real estate market has adversely impacted our loan portfolio and caused us to add to our reserve for loan losses. The continued decline in the real estate market has resulted in an increase in nonperforming loans and charge-offs, primarily in the residential land development and construction portfolios," said Carol Nelson, president and CEO, in a statement.

Shares in Cascade fell 18 cents to close at \$1.99 in Tuesday trading.

Frontier Financial loses \$50M in Q2

By Puget Sound Business Journal - Seattle

SP Acquisition Holdings Inc. (SPAH), a New York-based asset acquisitions company, said it's buying Frontier Financial Corp. in a stock exchange deal.

On Wednesday, Everett-based Frontier Financial (NASDAQ: FTBK) reported a net loss of \$50 million, or a loss of \$1.06 per diluted share. Earlier this month, the Federal Reserve Bank of San Francisco placed tighter restrictions on Frontier Financial, the holding company of Frontier Bank in Everett. In June, Frontier Financial cut 6 percent of its 760-person staff, or approximately 45 people.

SP Acquisition Holdings (AMEX: DSP) said as part of the deal, each outstanding Frontier share will be exchanged for the right to receive 0.053 shares of SP common stock and 0.053 SP warrants. Frontier has more than 47 million outstanding shares, which will be exchanged for 2.5 million SPAH shares and 2.5 million SPAH warrants.

SPAH officials said they don't anticipate making too many changes with Frontier.

"SPAH will do business as Frontier Financial Corp. Frontier's executive team will remain in place, the company's headquarters will remain in Everett, Washington, and the Frontier Bank brand will not be changed," according to an SPAH statement.

The deal is expected to close in the fourth quarter.

Banner Corp. loses \$16.5M in Q2

By Puget Sound Business Journal - Seattle

Banner Corp., the parent company of Banner Bank and Islanders Bank, reported a second-quarter loss of \$16.5 million, or a loss of \$1.04 per share, which compares with a loss of \$52.3 million, or a loss of \$3.31 per share, a year earlier.

In the latest quarter, Banner Corp. (NASDAQ: BANR) recorded a \$45 million provision for loan losses and a \$11 million net gain from the valuation of financial instruments.

"While certain segments showed modest improvement, housing markets generally remained weak in many of our service areas, resulting in further deterioration in property values and the need to provide for additional loan losses," said D. Michael Jones, president and CEO, in a statement.

Analysts polled by Thomson Reuters First Call expected a loss of 75 cents per share for the Walla Walla-based bank.

Horizon Bank delays quarterly report

By Puget Sound Business Journal - Seattle

Horizon Financial Corp. said it won't report its earnings on Thursday, as originally scheduled.

The Bellingham holding company for Horizon Bank (NASDAQ: HRZB) said it will also postpone a conference call it was supposed to hold with investors on Thursday.

"We are working diligently to finalize our financial results, and expect the process to be completed in time to conduct a conference call on Monday, Aug. 3, 2009. As soon as the process is finalized, we will report our financial results and announce the details for our conference call," said Rich Jacobson, president and CEO, in a statement.

In March, the Federal Deposit Insurance Corp. and the Washington state Department of Financial Institutions laid down tough new rules for Horizon, following regulators' announcement of "unsafe or unsound banking practices alleged to have been committed by the bank."

Investors didn't like the delay. Shares in Horizon fell almost 10 percent in trading Thursday, dropping more than 13 cents to close at around \$1.24.

AmericanWest Bancorp. loses \$10.5M in Q2

By Puget Sound Business Journal - Seattle

AmericanWest Bancorporation officials called their second-quarter results "unacceptable."

The Spokane bank (NASDAQ: AWBC) reported a second-quarter loss of \$10.5 million, or a loss of 61 cents per share, which compares with a loss of \$6.2 million, or a loss of 36 cents a share a year earlier.

The bank admitted that its total risk-based capital ratio falls into the "significantly under capitalized" range and all three of the bank's consolidated regulatory capital ratios as of June 30 were in the "under capitalized" classification.

Bank officials said they are "continuing to explore all available options with respect to restoration of regulatory capital levels, including a private placement of equity securities and the divestiture of branch assets and liabilities."

They added that they're making progress on some banking fronts.

"These factors, combined with a dramatic reduction in the growth of non-performing assets and continued stability of our deposit base, are indicators that things are headed in the right direction, albeit at a much slower pace than we would like," said Patrick Rusnak, CEO, in a statement.

Banker group: Fewer loans, refinancings as rates rise

By Puget Sound Business Journal - Seattle

Rising mortgage rates led to fewer loan applications for the week ended July 24, according to data from the Mortgage Bankers Association.

The industry group's seasonally adjusted index of mortgage applications fell 6.3 percent from the previous week.

The number of people refinancing also decreased to 52.6 percent of the total applications from 55.5 percent the previous week.

The adjustable-rate mortgage share of activity increased to 5.5 percent from 4.8 percent of total applications the previous week.

The average interest rate for 30-year, fixed-rate mortgages increased to 5.36 percent from 5.31 percent, with points decreasing to 0.93 from 1.18.

The average interest rate for 15-year, fixed-rate mortgages decreased to 4.75 percent from 4.8 percent, with points increasing to 1.14 from 1.03.

The average interest rate for one-year ARMs increased to 6.66 percent from 6.5 percent, with points decreasing to 0.09 from 0.11.

First Sound Bank loses \$4.5M in Q2

By Puget Sound Business Journal - Seattle

First Sound Bank said it lost \$4.5 million in the second quarter, which bank officials attributed mainly to a \$3.9 million increase in its loan-loss provision.

The Seattle bank is still involved in litigation related to its March 2008 purchase of equipment finance company Puget Sound Leasing Co., which is now known as Larasco Inc.

"The bank has incurred considerable losses relating to the assets acquired from Larasco, and we anticipate this portfolio will continue to incur losses in reduced amounts as the leases run off," said Don Hirtzel, chairman and CEO, in a statement.

The bank said it, like other Puget Sound-area banks, was hit hard in its real estate loan portfolio.

"First Sound has incurred losses in the construction and land development portion of its real estate portfolio, which represents 17 percent of the bank's total earning asset base. We have therefore reserved aggressively in anticipation of deterioration in this portion of the loan portfolio," said Steve Shaughnessy, president and chief operating officer, in a statement.

Seattle, Tacoma nonprofits merging

By Puget Sound Business Journal - Seattle

Seattle-based Big Brothers Big Sisters of Puget Sound is merging with fellow nonprofit organization Read 2 Me, based in Tacoma.

Read 2 Me, which focuses on reading improvement for school children in grades kindergarten through third, will continue to operate its programs under Big Brothers Big Sisters of Puget Sound.

Barbara James, former CEO of Read 2 Me, will lead Big Brothers Big Sisters' Tacoma office.

According to Big Brothers Big Sisters, the Read 2 Me program will start the 2009-10 school year in Tacoma Public Schools, and then eventually expand into other Pierce County school districts over the coming years.

Expedia earnings down, stock up

By Puget Sound Business Journal - Seattle

Expedia Inc. reported second-quarter net income fell to \$41 million, or earnings of 14 cents a share, from \$96 million, or 33 cents a share a year earlier.

Revenues fell to \$770 million from \$795 million in 2008.

Despite the drops, shares in the Bellevue online travel company (NASDAQ: EXPE) soared on the results, which bested analysts' expectations. In Thursday trading, shares in Expedia rose almost 12 percent, rising \$2.14 to close at \$20.48.

Expedia reported adjusted, non-GAAP (generally accepted accounting principles) of 38 cents a share and analysts polled by Thomson Reuters First Call expected second-quarter adjusted earnings of 31 cents per share.

Verizon to cut 8,000 workers

By Puget Sound Business Journal - Seattle

Verizon Communications Inc. disclosed Monday it would lay off 8,000 more employees and contractors by the end of the year as the company continues to be stung by a slowdown in corporate accounts.

New York-based Verizon (NYSE: VZ) employs more than 2,000 people in Washington and Oregon. So far, 12 Verizon workers in those two states are being laid off, said spokesman Kevin Laverty. He said he did not know where those workers are located, or whether there would be further layoffs in the region.

Verizon Wireless, a joint venture of Verizon and Vodafone (NYSE: VOD) which employs roughly 1,400 in Bellevue, is not affected by the job cuts, said Verizon Wireless spokesman Scott Charlston.

Verizon Communications announced the reductions in a conference call with investors about second quarter earnings. Verizon generated \$26.9 billion in operating revenue for the quarter, up 11 percent year-over-year. That figure included the acquisition of regional wireless carrier Alltel. Verizon posted earnings per share of 52 cents, down from 66 cents a year ago.

"Although we are taking steps to mitigate the negative impacts of the economy in the short-term, we also need to more significantly reduce the wireline cost structure over the next 12 to 18 months," said Chief Financial Officer John Killian in the call.

The company had already slashed 8,000 jobs in the last year, and will continue to cut costs in network integration, travel and real estate.

98 of top 100 metros suffer job losses

By Puget Sound Business Journal - Seattle

Ninety-eight of the nation's 100 largest labor markets lost jobs between the midpoints of 2008 and 2009, according to a report issued Wednesday by the U.S. Bureau of Labor Statistics.

The biggest losses occurred in the nation's three largest markets — New York City, Los Angeles and Chicago — each of which lost in excess of 200,000 jobs from June 2008 to the same month this year.

Seattle lost 65,100 jobs during that time, according to the report.

The Los Angeles area suffered the biggest reversal, with a one-year loss of 259,100 jobs. New York City lost 226,900 jobs in the same period, and Chicago lost 207,600.

Three other markets lost between 100,000 and 200,000 jobs during the past year: Detroit, Phoenix and Atlanta.

The only exceptions to the rule of overall decline were Baton Rouge, La., which picked up 500 jobs between mid-2008 and mid-2009, and McAllen-Edinburg, Texas, which added 300 jobs.

The 100 major labor markets, taken as a group, lost 3.46 million jobs over the 12-month span.

Seattle workers paid 10 percent more than U.S. average

By Puget Sound Business Journal - Seattle

Seattle workers were paid 10 percent more than their national counterparts who worked in the same jobs, according to a study released Thursday by the U.S. Bureau of Labor Statistics (BLS).

In the West, workers in the San Jose-San Francisco-Oakland area were paid the greatest percentage over the rest of the country. Workers in that area were paid 19 percent more than their national counterparts in the same job, according to BLS.

BLS said it surveyed 10 metropolitan areas in the West for its survey.

In Washington state, workers in the Kennewick-Pasco-Richland area were paid 2 percent more than the rest of the country. At the bottom in the West, BLS said workers in the Phoenix-Mesa-Scottsdale, Ariz. area were paid 1 percent less than the rest of the country in the same job.