



Hello to everyone, and I trust the first half of 2010 has been a good one.

Our 2010 mid-year market reports have been completed. I can no longer post the official report, but I would be happy to email it to anyone who would like to receive it. If you are interested, please simply email me and I will forward to you immediately. I again have both a Baltimore Metro area report and a national report. I use data provided by a company called Costar to compile this information, and it has proven to be quite good.

My thoughts on the first half of 2010 are much more muted than in the past. For those of you who have read my past postings where I have related the commercial real estate market to everything from raising my children to a vacuum, I think you will find my thoughts much more uninspired. These last six months were the first I can recall where there was not some sort of violent restructuring or re-pricing (either good or bad) going on. The first six months of 2010 were a simple continuation of the themes I have been seeing for 2 years.

The first half of the year produced a stabilization of the market. While it did not stabilize at a particularly healthy point, it does seem to be at a point where buyers and sellers, lessors and lessees can get deals done. People are no longer looking for pricing indicators. Rather, on the positive side, there has been a return of logic and common sense to the market which has been missing for most of the last decade.

For the dry stuff: Leasing of office space in Baltimore saw a small positive net absorption of nearly 140,000 square feet, leaving the vacancy rate unchanged at 13.5%. The small absorption does mask a slightly healthier indicator that total absorption was close to 536,000 square feet, but was offset by newly delivered building of roughly 400,000 square feet. While much of the credit again goes to federal agencies, I have seen "green shoots" of private industry growing. Several large block of office space were taken by financial firms including Morgan Stanley and Fundamental. Warehouse also had positive absorption of nearly 1,150,000 square feet, dominated by the massive lease by Bob's Discount Furniture of nearly 700,000 square feet. Finally, retail had positive absorption of just over 280,000 square feet, bringing the vacancy rate down from 6.6% to 6.4%.

What these numbers are telling us about the leasing market confirms some concerns I expressed in January of 2010 about the leasing market. Specifically, I noted,

"...my biggest uncertainty lies with the stability of the leasing market. The significant bounce I saw in leasing activity in the second half of 2009 needs to clarify as to whether it was well-timed and risk-evaluated investment, or simply pent up demand from 9 months of virtual stand-still."



I think the evidence points to the fact that the bounce I saw in the second half of 2009 was due much more to pent-up demand as opposed to a huge upswing in total demand. The market has improved but not by the amount of absorption I saw in that period (in the same way you cannot expect a 50% annual increase in the stock market each year.)

Sales activity has been at low-volumes, although I have seen some activity in the first half of the year. Perhaps the most significant statistic from the sales market is the continuing cap-rate decompression. Or, to put it more simply, values are still falling for stabilized properties. Retail saw a jump in cap rates for 6.99% to 8.00%; office jumped from 8.73% to 9.22%, and warehouse dropped to 6.22%. All of that being said, there is a very important footnote to these numbers that must be included. Specifically, these numbers offer good guidelines for the market, but since the volume is so light, they are heavily suspect as truly accurate gauges. Credit remains tight (although somewhat more free than year end 2009.) Buyers and sellers still tend to have huge price gaps between bids and asks. These processes take time to work through. The investor who bought a property that has had a huge price depreciation will typically hold out as long as possible in hopes of a rebound of the valuation. This process typically ends with either a lease which buys the owner time, or a foreclosure. On that note, I have seen a sharp increase in bank foreclosures, and I would expect that to continue to increase as bank balance sheets improve to the point they can afford to foreclose. The common thread I continue to see is that for the properties that do sell, I have seen sellers willing to take a price more determined by the underlying health of the leasing market combined with well-capitalized buyers who can borrow at historically conservative loan-to-value ratios of 75% or less.

As for the rest of 2010, I do not see any macro forces which will greatly affect the sales or leasing market in a way that is not already factored into people's consideration(s). The forces I see that will play out in the 2nd half of the year will be:

1. In the leasing market, smart well-capitalized companies will continue to use the soft leasing market to consolidate and gain efficiencies for their operations. We may see certain companies upgrade to Class A from Class B at similar costs, or consolidate operations. The key is that there is a significant gap between leasing supply and demand, and the best buyers will be able to use that to their advantage.
2. As bank balance sheets improve, banks will become more willing to foreclose rather than extending defaulted loans. This will lead to an increased momentum of foreclosures.
3. Banks will become much better sellers this cycle. Whereas in the past, banks would sell for whatever they could get, banks are taking smart and effective steps to create as much value as possible prior to a sale rather than simply getting rid of an asset at any price.



4. Sales trends for unstabilized properties will continue to fall as more recognition and realization spreads throughout the market place. In the stock market, the trading firms use the word “capitulation” to describe when the investor simply gives up defending his or her position and sells to take the loss rather than throw additional money into a project or investment. I believe this will become ever more prevalent as banks get less flexible.

On a personal level, AGM was able to have a decent first half of 2010. We were fortunate to be involved in some very significant deals, including the relocation of the corporate headquarters of Pandora Jewelry and the advising of a new campus for a national college. All of our investment projects that were purchased before the end of June have begun to have positive cash flow, and we continue to allocate significant time and energy into trying to identify interesting investment opportunities. We are grateful to our clients for continuing to place their trust in us, and we look forward to a successful second half of 2010.

About The Author:

Gregory Friedman is one of the co-founders of AGM Commercial Real Estate Advisors and has practiced commercial real estate brokerage and investing since 1994. Greg has a BA from Washington University in St. Louis, and a Master Degree (finance) from Loyola University in Baltimore. He lives in Baltimore, Maryland with his wife and two children. His full biography can be accessed at the following web address:

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