THE WATCH LIST

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IN THIS WEEK'S ISSUE:

Crystal Balls Proved Reliable for Predicting CRE Market Performance in 2013

Despite Substantial Worries to the Contrary, Predictions of a Strong CRE Rebound Proved More Accurate

As the end of 2013 approaches, we thought it would be interesting to check back in on some commercial real estate predictions we highlighted at the start of the year. As it turns out, there were some pretty reliable soothsayers.

Predicting the year was by no means an easy task a year ago when the rattle of collapsed economy was still reverberating and lots of doubts lingered over the strength of a recovery.

Among the more prescient predictions we highlighted in January were ones from Jones Lang LaSalle, Cushman & Wakefield, Blackstone Group President and CEO Tony James, the Robert W. Baird investment firm, and (in our humble opinion) CoStar Group.

Prediction: 2013 was expected to be a turning point for the economy and the CRE industry, according to Cushman & Wakefield's Global Economic Pulse Forecast. While 2013 started off with the same slow pace in keeping with the slowest economic recovery on record, C&W said the stage was set for a significant turn-up in market sentiment by year end, setting the stage for a strong global rebound in 2014 and beyond.

Reality: It didn't take long for the CRE turn-up to begin. First quarter sales were up notably from the year earlier. But as predicted, market strength picked up notably as the year went on. In fact, third quarter sales totaled more than $103 billion -- an accomplished that hadn't happened since 2006 for a non fourth quarter period.

Prediction: The CRE industry's measured and steady recovery was expected to bolster a 20% growth in the investment market with demand up particularly in multifamily, office and industrial sectors, according to Jones Lang LaSalle's 2013 Cross Sector Survey.

Reality: Through the third quarter of this year, investment sales were up 27%, according to CoStar COMPs data. Industrial investments were up 56% and office up 27%; however, multifamily investments tapered off this year and were actually down about 6%.

Prediction: The earliest buyers in the Great Recession would be the sellers in 2013, according Blackstone's James.

Reality: James obviously had some insider knowledge on this prediction, but isn't that what experts rely on? Institutional selling was strong in 2013. Just as The Blackstone Group kept the capital markets busy in 2011 and 2012 raising more than $16 billion through private fundraising efforts, it also kept them equally busy this year cashing in on those investments mainly through the public markets. Blackstone Group cashed out on at least six investments by taking them public in 2013.

Prediction: Prospects for 2013 were strong, particularly for real estate investment trusts looking to raise capital by going public and for a pickup in secondary and tertiary market activity, the real estate banking team at the investment firm Robert W. Baird predicted.

Reality: Again, just look at the initial public offerings Blackstone undertook in 2013. But also with the economy continuing to strengthen, more opportunistic investors - in many cases priced out of the top coastal markets like San Francisco, New York City and Washington, DC,. -- went seeking higher yields in secondary markets where job growth and business conditions have accelerated during the economic recovery. Markets such as Nashville, Salt Lake City Indianapolis, Phoenix, and Jacksonville and Tampa, FL, were noted in CoStar stories this year.

Prediction: CoStar ran two stories early this year predicting 25 of the most likely publicly held companies that would be buying property this year and 25 of the most likely publicly held sellers.

Reality: It was easier to predict the buyers than the sellers. Overall, the 25 sellers we identified received net proceeds of more than $11.8 billion from the disposal of properties through the first nine months of the year. True, though, they also paid out more than $11.3 billion in cash for new investments. Still, only eight of the 25 firms we identified were net buyers of properties and we also picked out eight firms that showed no cash outlay for new properties this year.

On the buy side, the 25 firms we identified paid out more than $15 billion for new property investments in the first nine months; they received only about $2 billion in net proceeds from property sales.

Not every prediction we highlighted turned out so accurately; this was particularly true when it came to the stock-and-bond markets.

We won't single out those who didn't do as well on their predictions, but will point out that the commercial mortgage-backed securities bond market went viral with new issuance levels greatly exceeding predicted levels. The expanded investment activity, the greater appetite for risk and interest in smaller markets among investors drove competition among conduit lenders.

Also, while REIT stocks, which had been riding a long bull market going into this year and did manage to continue their upward momentum through May, since then REIT stock prices have steadily declining, according to most REIT indexes, reflecting in part investor concerns over rising interest rates and the prospects for more rate increases in 2014.

But predictions for 2014 are another story entirely; stay tuned.

NorthStar Realty Invest $340 Mill. in RXR Realty

Deal Will Help Seed New Asset Management REIT

NorthStar Realty Finance Corp. closed on a strategic $340 million investment in RXR Realty, a leading real estate operating and investment management company focused on the New York City Tri-State area.

The investment includes a combination of corporate debt, preferred equity and common stock in RXR which provides NorthStar with a 30% ownership interest in RXR.

RXR was formed in 2007 by the former management team of Reckson Associates Realty Corp. ("Reckson") after it sold Reckson to SL Green Realty in January 2007 for $6.5 billion.

Since its formation RXR has raised more than $3 billion of institutional capital and accumulated interests in $6.5 billion of assets comprised of 108 operating properties and approximately 20 million square feet.

RXR began reinvesting in the Manhattan market in 2009 and has been one of the most prolific investors assembling a portfolio of trophy assets that include 75 Rockefeller Plaza, 237 Park Ave., 340 Madison Ave., 450 Lexington Ave.,, 620 Avenue of the Americas, The Starrett Lehigh Building and 1330 Avenue of the Americas.

“Given RXR management's track record in both the public and private markets, its high quality real estate portfolio and its growing asset management business, they are a perfect fit for NorthStar, both in terms of further diversifying NorthStar's asset base with trophy properties in New York City, and growing NorthStar's asset management business,” said David Hamamoto, chairman and CEO of NorthStar.

"In connection with the recently announced planned spin-off of NorthStar Asset Management, we will be evaluating alternatives for including NorthStar's portion of RXR's asset management business as part of the assets that NorthStar Asset Management will receive in the spin-off,” Hamamoto said.

NorthStar Realty previously approved a plan to spin-off its asset management business into a separate publicly traded (NorthStar Asset Management Corp.), which is expected to be listed on the New York Stock Exchange.

“This transaction with RXR is the first of many opportunities that we hope to execute on as we begin to scale our asset management business,” Hamamoto said.

As part of the investment, NorthStar and RXR intend to immediately begin working together on raising capital through NorthStar's distribution network to complement the activities of RXR's current investment vehicles and future funds.

NorthStar Asset Management will be entitled to 50% of the asset management fees from any capital raised through its distribution network and will be entitled to additional asset management fees through its proportionate ownership interest in RXR.

NorthStar Realty Finance Corp. had previously commenced an underwritten public offering of common stock expecting to raise more than $580 million. The company intends to use those net proceeds to fund the RXR investment.

It also closed on $345 million of an $400 million manufactured housing portfolio comprised of 16 communities containing 5,900 pad rental sites primarily in Denver, CO; and Austin and Dallas, TX. Inclusive of this portfolio, since 2012 NorthStar has accumulated an approximately $1.6 billion manufactured housing portfolio comprised of 123 communities containing over 29,000 pad rental sites.

Prologis Forms $1 Bil. JV with Norges Bank in the U.S.

Just weeks after closing a multi-million U.S. office joint venture, Oslo, Norway-based Norges Bank has formed a $1 billion joint venture in U.S. industrial properties with Prologis Inc.

The two signed a definitive agreement to form Prologis U.S. Logistics Venture (USLV). Prologis' partner is Norges Bank Investment Management (NBIM), which is the manager of the Norwegian Government Pension Fund Global. USLV will be structured as a 55/45 venture with 55% owned by Prologis and 45% by NBIM.

"Following our joint venture in Europe earlier this year, we are pleased to extend our relationship with NBIM into the U.S.," said James W. Green, managing director global client relations at Prologis.

Upon closing, the venture will acquire a $1 billion stabilized portfolio of 66 logistics facilities totaling 12.8 million square feet across the U.S. The portfolio will comprise a portion of assets from Prologis' former North American Industrial Fund III and Prologis Institutional Alliance Fund II. The venture is expected to close in January 2014.

The 66 properties are located throughout the United States in eight states across nine markets including Southern California, Pennsylvania, the San Francisco Bay Area, New Jersey, Las Vegas, Chicago, Seattle, Atlanta, and Miami.

"The formation of this venture is consistent with our joint long-term focus of investing in high-quality assets in key global markets," said Eugene F. Reilly, CEO of Prologis Americas. "USLV is expected to grow in the future, including through acquiring strategic portfolios and, where appropriate, properties that complement the existing asset base."

Earlier this month, Norges Bank and MetLife Inc. formed a new joint venture to buy high quality office properties in major U.S. markets and announced their first acquisition: One Financial Center in Boston.

The 46-story, five-star office building totaling 1.3 million square feet in the city's financial district near Boston's South Station. NBIM purchased its 47.5% share of the asset from seller Beacon Capital, while MetLife increased its current ownership stake by 2.5 percentage points to hold the remaining 52.5% stake.

Essex, BRE Finally Come to Terms On $4.3B Merger

By: Randyl Drummer

After a long courtship, Essex Property Trust Inc. and BRE Properties Inc. agreed to merge for $4.3 billion in cash and stock.

If consummated, the transaction between the two San Francisco Bay Area rivals would form the largest pure-play apartment REIT on the West Coast, with an expected total market capitalization of about $15.4 billion.

San Francisco-based BRE said earlier this month it has begun a review of strategic alternatives, including a possible sale or merger, acknowledging it has received a non-binding merger proposal from Essex, based in Palo Alto, CA.

If approved by shareholders, Essex would buy BRE for about $4.3 billion in cash and stock. Each BRE common share would be converted into 0.2971 newly issued shares of Essex common stock plus $12.33 in cash. The deal values BRE shares at $56.21 each, according to a joint release.

The company will retain the Essex name and will continue to trade under the ticker symbol ESS (NYSE).

In a rating note, Moody's said the combination will create the dominant apartment landlord in the companies' markets, with larger size and scale leading to lower capital costs and a broader growth platform.

The combined company will own 56,000 multifamily units in 239 properties in three major regions of Southern California, Northern California and Seattle.

"For over a year, BRE's board and management team have been evaluating alternatives to maximize shareholder value," said Constance B. Moore, chief executive officer of BRE. "This transaction will create a must-own sharpshooter REIT focused on West Coast apartments, and we believe this is a great outcome for our company."

"The combined company will be the largest and only publicly traded pure play apartment REIT on the West Coast, which we believe will provide a greater competitive advantage in our markets," said Michael Schall, Essex's president and CEO. "In addition, by combining the strengths of the two platforms, which have a significant geographic overlap, we expect to realize operating efficiencies and further enhance our growth profile."

Cantor Fitzgerald REIT analyst David Toti said in a note that the proposed merger is ultimately a defensive move by Essex to eliminate a competitor rather than an accretive play driven by a compelling return proposition.

"Apartment mergers abound, but have not been catalysts for share prices," Toti said. "That said, the revival of M&A within the sub-sector implies value arbitrage and possible pricing support, and could suggest a valuation floor."

Citi Renews 2.6 Mil SF of Manhattan Leases Through 2035

By: Justin Sumner

Citigroup, Inc. has renewed its existing triple-net leases covering more than 2.63 million square feet at 388-390 Greenwich St. in New York City through December 31, 2035. Landlords SL Green Realty Corp. (NYSE: SLG) and Ivanhoé Cambridge signed the agreement, which includes a purchase option between December 2017 and 2020.

388 Greenwich is a 40-story, 1.87 million-square-foot office tower, while 390 Greenwich is an 8-story, 764,918-square-foot building with 94,000-square-foot trading floors. The Shearson Lehman Plaza was built in 1986 on three acres in the Tribeca submarket of Manhattan, between Joe DiMaggio Hwy and N. Moore Street. The space will be occupied by Morgan Stanley Smith Barney LLC and Citigroup Global Markets, Inc.

"We worked tirelessly to structure a transaction that is advantageous to all parties, and we are extremely pleased that Citi has extended its long-term commitment to Downtown Manhattan," said Marc Holliday, chief executive officer of SL Green. "Citi is one of the world's great financial institutions. SL Green has enjoyed being its largest landlord and we are pleased to continue this strong and highly valued relationship."

Robert Alexander, Michael Geoghegan, Andrew Sussman, and Michael Wellen at CBRE represented Citibank. SL Green handled lease negotiations in-house on behalf of the owners.

We've Hit the Halfway Point for Vintage CMBS

By: John O'Callahan, Capital Markets Strategist for CoStar Group

Having just passed the five-year anniversary of the 2008 financial crisis peak, it's a good time to review the impact of pre-crisis over-exuberance and excessive leverage on CMBS.

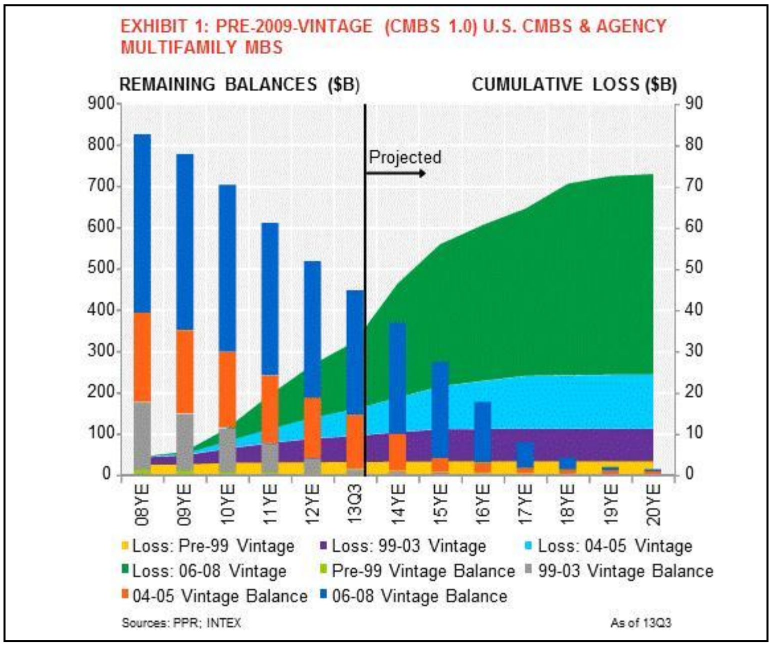
Total legacy U.S. CMBS 1.0 loan balances declined to $450 billion at the end of the third quarter from $825 billion at the end of 2008, as shown in Exhibit 1.1

Servicers liquidated approximately $65 billion in loans that lost a total of $28 billion over the past five years. Another $20 billion of defaulted loans either finally paid off or were liquidated with no losses. Total cumulative losses in the U.S. CMBS space have reached $32 billion, including losses sustained before the crisis.(2)

As anticipated, loans originated before 2004 have been largely paid down, and only 3% of original balances, or $15 billion, remains.(3) Cumulative losses from this cohort, totaling $9.5 billion, are less than 2% of original balances, and only another $1.7 billion in losses is projected over the next few years.

Most of the remaining CMBS 1.0 balances will decline rapidly over the next five years as payoffs and liquidations take their toll.

In the near term, liquidations and realized losses are expected to continue to accrue at a high rate, leading to cumulative CMBS losses exceeding $50 billion by the end of 2015.(4) Monthly liquidation volumes may be lumpy as special servicers try a new tactic of selling pools of nonperforming assets via auction.



CWCapital's $2.9 billion auction sale, slated to close in early 2014, follows Orix's $1 billion pool sale in June. More pool sales could speed up the resolution of $40 billion in outstanding troubled loans (half of which is REO), but the lack of clarity around which assets will be sold at auction will give investors heartburn as they grapple with uncertainty over the timing of principal cash flows.

GSMS 2007-GG10, for example, could endure a surge in both loss amount and bond paydown after CWCapital's upcoming pool sale, possibly exceeding PPR's 20-month-old prediction for 8% losses in this deal by the end of 2013.5

After 2015, loss severities will begin a relatively steep decline as troubles shift to maturity defaults. Final cumulative losses are projected to level out at around $70 billion (depending on market takeout assumptions for refinancing)—marginally lower than our 2010 projections—as a result of improved conditions.(6)

On many fronts, we're roughly at only the halfway point from the crisis peak for legacy CMBS, in terms of losses realized and balances and time remaining.

On the bright side, disappearing vintage balances are being replaced by CMBS 2.0/3.0 balances ($138 billion currently) and agency multifamily MBS ($152 billion). PPR anticipates that overall U.S. CMBS balances of all types and vintages—currently totaling $740 billion—will slowly grow in the near term as origination volume exceeds dispositions. And CMBS continues to be an attractive asset class for a wide range of investors.

FOOTNOTES

(1) Data is for all U.S. CMBS, including conduit, fusion, single asset/borrower, floating-rate CMBS, and agency MBS.
(2) Over $1.2 trillion of U.S. CMBS loans (all loan and deal types) were securitized through 2008.
(3) $480 billion in CMBS loans were originated prior to 2004.
(4) Projections per PPR CompassFLEX credit model on INTEX. Modeled with loan maturity extension and prepayment triggers enabled in a base scenario with conservative refinance underwriting parameters.
(5) See Client Updates "CMBS Bond Losses to Ramp Up," dated March 29, 2012, and "Drawn-Out Liquidations," dated Aug. 12, 2013.
(6) In 2010, PPR projected CMBS conduit loan losses to reach $60 billion under lenient refi conditions, on top of roughly $10 billion in losses already incurred. See Client Update "Impact of Extensions and Refi Terms on Losses," Sept. 1, 2010.

Edens Gets $1.5 Billion Equity Backing from Blackstone, Others

Edens Investment Trust recently closed a $1.47 billion equity transaction involving the sale of the State of Michigan Retirement System's (SMRS) minority ownership interest for $718 million and a $750 million growth-equity commitment to a Blackstone-sponsored core real estate investment vehicle and two other investors.

Institutional investors advised by J.P. Morgan Asset Management, New York State Teachers' Retirement System and Blackstone invested in the Columbia, SC-based national retail real estate investment company that owns a

$4 billion portfolio of urban retail centers. Each of JPMAM, NYSTRS and Blackstone will have approximately equivalent ownership interests in Edens.

“Capitalizing on one of the largest equity investments ever into a private U.S. based real estate company, Edens plans to continue to enhance and expand our existing portfolio, creating significant value for our shareholders,” said Terry Brown, Edens CEO.

Edens plans to put the equity commitment to work by funding additional urban retail acquisitions, redevelopments and developments. The firm is targeting major East Coast metropolitan areas, including Boston, New York City, Washington DC, Atlanta and Miami.

After initially focusing on investments in its existing East Coast target markets, Edens expects to seek out investment opportunities in other urban markets.

Sports Bar Operator Files Ch. 11; Plans to Cancel Vacated Leases

Wichita-based F&H Acquisition Corp. filed for Chapter 11 bankruptcy reorganization through a potential sale of the company. The company operates 101 sports-themed restaurants and oversees 11 franchised restaurant locations in 27 states. Brands include Fox & Hound, the Bailey’s Sports Grille and Champps.

In recent years, the restaurant firm was deeply affected by the U.S. economic downturn and increased food costs. While new advertising campaigns, operational improvements and cost-cutting implemented by F&H Acquisition mitigated certain negative effects on its businesses, the moves were not successful enough, according to documents in the company’s bankruptcy filing.

In late 2012, F&H’s liquidity position deteriorated. It struggled to meet its debt service obligations and ended up defaulting on its loans.

Since February 2013 F&H explored strategic alternatives and opted to pursue a chapter 11 filing coupled with an expedited operational restructuring and asset sale. Although the chain has been unable to secure a stalking horse bidder, together with investment banker Imperial Capital, it plans to continue to seek a potential buyer.

As part of its bankruptcy reorganization, F&H has asked the court to cancel leases on those premises it had vacated prior to filing for reorganization, which is said could save the company up to $3.8 million in lease payments. No currently operating restaurants have been slated for closure.

Restaurant	Address	City	State	Landlord
Fox & Hound	3425 Colonnade Parkway	Birmingham	AL	DRA CLP Colonnade Retail Birmingham, c/o CBRE
Fox & Hound	1017 E. Baseline Road	Gilbert	AZ	Pamale Co.
Fox & Hound	8320 W. Mariners Way	Peoria	AZ	Monaghan Farms Inc.
Champps	1765 Briargate Parkway	Colorado Springs	CO	IMI Colorado Springs
Champps	7301 S. Santa Fe Drive, Suite 900	Littleton	CO	DDR Aspen Grove Lifestyle Center Properties
Fox & Hound	2500 Cobb Place Lane, Suite 900	Kennesaw	GA	DDRTC Barrett Pavilion
Champps	134 Old Orchard Center, Suite D134	Skokie	IL	Old Orchard Urban LP
Champps	302 Bullitt Lane	Louisville	KY	PNC Bank, Trustee of the Trust under the Will of William Marshall Bullitt
Fox & Hound	5246 Corporate Blvd.	Baton Rouge	LA	Esplanade

Restaurant	Address	City	State	Landlord
Champps	7425 Corporate Blvd. Suite 810	Baton Rouge	LA	Creekstone Cedar Lodge I
Champps	7425 Corporate Blvd. Suite 810	Baton Rouge	LA	(Sublease to Mugshots)
Tent Restaurant	27843 Orchard Lake Road	Farmington Hill	MI	Orchard 12
Tent Restaurant	330 N. Tryon St.	Charlotte	NC	K&L Gates LLP
Champps	12 Main St.	Westlake	OH	Crocker Park Delaware, c/o Stark Enterprises
Champps	5835 Landerbrook Drive	Lyndhurst	OH	Tenant In Common Co- Owners, c/o AEI Fund Management, Inc.
Champps	5989 Canal St.	Valley View	OH	CAII c/o Stark Enterprises
Champps	9701 Roosevelt Blvd.	Philadelphia	PA	Boulevard North Associates LP
Champps	9701 Roosevelt Blvd.	Philadelphia	PA	(Sublease to Blazin Wings)
Champps	The Shoppes @ Valley Square, Unit 902	Warrington	PA	iStar Harrisburg Business Trust
Fox & Hound	1640 Stemmons Freeway	Lewisville	TX	Tsai Global
Fox & Hound	17575 Tomball Parkway	Houston	TX	Willowbroook I LP
Champps	11694 Plaza America Drive	Reston	VA	AG/ARC Plaza America Retail Owner c/o Atlantic Realty Cos.
Tent Restaurant	1861 Carl D. Silver Parkway	Fredericksburg	VA	Central Park 1208
Tent Restaurant	2010 Crystal Drive	Arlington	VA	CESC Plaza LP

Darden Cutting Number of New Restaurants; Spinning Off Red Lobster

In a bid to address changing industry dynamics in the competitive casual dining sector, Darden Restaurants Inc. approved plans to separate the company's Red Lobster business, reduce the number of new stores it opens, lower capital expenditures and forgo acquisitions.

Although no final decision has been made on the corporate structure of a separation, the Orlando-based company expects to execute a tax-free spin-off of Red Lobster to its shareholders, but may also consider selling the entire Red Lobster business.

The restaurant operator also plans to slow the number of new stores it opens primarily by suspending new unit growth at Olive Garden and reduce the number of new LongHorn Steakhouses it opens next year, with new unit growth at the Specialty Restaurant Group continuing at a pace modestly below this year's level. The company said the reduced unit growth will lower its capital spending by at least $100 million annually.

In addition, the company has decided to forgo acquisitions of additional brands for the foreseeable future and continue to try and cut costs as it moves through the separation process.

"Our industry is in a period of significant change, with relatively low levels of consumer demand in each of the past several years for restaurants generally, and for casual dining in particular, as well as additional unexpected softness since June," said Clarence Otis, Darden's chairman and CEO. "While we are highly confident the future is bright for both Red Lobster and Darden excluding Red Lobster, we also recognize that the operating priorities, capital requirements, sales and earnings growth prospects, and volatility profiles of the two parts of the business are increasingly divergent."

Red Lobster is one of the largest full service dining seafood specialty restaurant operators in North America with 705 restaurants in the United States and Canada.

Tech, Energy at the Heart of 2013's Best-Performing Cities

Technology and energy were the two major forces powering this year's top-performing cities for sustaining and creating jobs, according to Milken Institute's annual ranking, thanks to "indigenous innovation" and "strategic recruitment," according to the economic think tank.

Some were successful despite being high-cost, high regulation locations. For example, San Francisco-San Mateo-Redwood City, CA; San Jose-Sunnyvale- Santa Clara, CA; and Cambridge-Newton-Framingham, MA, have developed critical masses of R&D assets and infrastructure that make it easier to innovate in those metros than in many lower-cost locations.

Other tech centers are capturing more of their locally generated innovation and filling in the missing ingredients as needed. Austin-Round Rock-San Marcos, TX, Raleigh-Cary, NC, and Denver-Aurora-Broomfield, CO, fall into this category.

Meanwhile, technological advancements such as horizontal drilling with hydraulic fracturing have altered the global energy landscape in ways few would have predicted even five years ago, according to Milken Institute. For example, oil production in North Dakota alone increased by more than 400% from 2007 to 2012. The indirect effects of that boom helped place Fargo, ND-MN, and Bismarck, ND, among the Top 5 small cities.

Domestic energy clusters such as Houston-Sugarland-Baytown, TX, and the more remote Greeley, CO, are also witnessing significant ripple effects across their economies from this oil and gas exploration renaissance.

Among this year's other key findings were the following.

Austin-Round Rock-San Marcos, TX, reclaimed the top spot as our 2013 Best-Performing Large City. The Lone Star State, which has both technology and energy assets, claimed three of the Top 10 and seven of the Top 25 large cities.

Colorado and California are each home to four of the Top 25 large cities.

Columbia, MO, was the Best-Performing Small City with the help of high-tech industries like telecommunications, which saw employment grow by 60% from 2007 to 2012.

Hagerstown-Martinsburg, MD-WV, recorded the biggest gain among the large cities, vaulting 100 spots.

U.S. Homes Projected to Increase $1.9 Trillion in Value in 2013; Largest Gain Since 2005

U.S. home values nationwide are expected to gain almost $1.9 trillion in cumulative value in 2013, the second consecutive annual gain and the largest since 2005, according to an analysis of Zillow Real Estate Market Reports.

The gains in property value were calculated by measuring the difference between cumulative home values as of the end of 2012 and anticipated cumulative home values at the end of 2013. The overall value of all homes in the U.S. at the end of 2013 is expected to be approximately $25.7 trillion, up 7.9% from the end of 2012. Last year, cumulative home values rose 3.9% from 2011.

The gain in cumulative home values is the second annual gain in a row, after home values fell every year from 2007 through 2011. Between 2007 and 2011, the total value of the U.S. housing stock fell by $6.3 trillion. Over the past two years, U.S. homes have gained back $2.8 trillion, or about 44% of the total value lost during the recession.

“In 2013, the housing market continued to build on the positive momentum that began in 2012, after the housing market bottomed. Low mortgage rates and an improving economy helped bring buyers into the market, boosting demand and driving prices up,” said Zillow chief economist Stan Humphries. “We expect these gains to continue into next year, though at a slower pace. The housing market is transitioning away from the robust bounce off the bottom we’ve been seeing, toward a more sustainable, healthier market. This will result in annual appreciation closer to historic norms of between 3% and 5%.”

Almost 90% of the 485 total metro areas analyzed nationwide experienced home value gains in 2013. Of the 30 largest metros, those with the largest gains in overall value as measured by total dollar volume include Los Angeles ($323.1 billion),San Francisco ($159.2 billion), New York ($123.1 billion), Miami ($83.3 billion) and San Diego ($71.5 billion).

Capital Markets Round-Up

Having watched its private equity rival Blackstone reap billions in profits from its various real estate investment ventures, **KKR** completed fundraising for its new KKR Real Estate Partners Americas LP, a $1.2 billion real estate fund that invests in North America and western Europe. Together with commitments from KKR personnel and KKR Financial Holdings LLC, KKR’s real estate platform has more than $1.5 billion of committed capital. KKR began soliciting third party capital for REPA, its first dedicated real estate fund, in the second quarter of 2013. The fund will continue to target real estate opportunities—including property-level equity, debt, special situations transactions and businesses with significant real estate holdings.

Vornado Realty Trust expects to report a $130.9 million loss on its 32.6% share of Toys "R" Us' following announcement of the toy retailer’s third quarter financial results Toys ‘R’ Us reported comparable store net sales were down 5.2% in the U.S. Its net loss for the third quarter was $605 million, compared to a net loss of $105 million in the prior year. For the first nine months of the year, Vornado has reported a $69.3 million loss attributable to Toys ‘R’ Us but has still managed to post $319.4 million in overall net income.