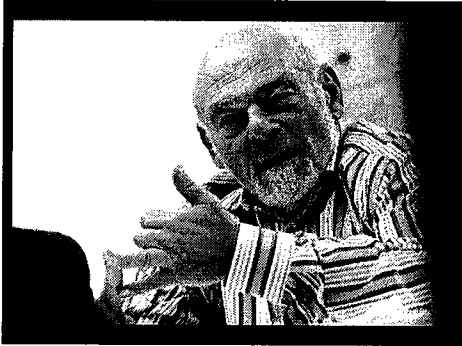


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Zell Sees Commercial Real Estate Investment Resurging (Update1)

By Bob Ivry



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May 1 (Bloomberg) -- Billionaire **Sam Zell** said institutional investors are beginning to return to the market for mortgage-backed securities that finance commercial real estate deals and new construction.

“I believe the overall market has already started to ease,” Zell, chairman of Equity Residential, the largest U.S. apartment owner, said in an interview in New York. “Is it in large volumes? No. Is it the first natural step in the evolution? Yes.”

For the first time since July, when credit markets froze in reaction to rising home-loan defaults, investors are starting to move their money from Treasury bonds, whose returns are below the inflation rate, and into commercial mortgage-backed securities. Insurance companies and pension funds need to earn at least 6 percent

to cover their liabilities, Zell said.

The yield on the two-year Treasury note closed at 2.258 percent yesterday, while one measure of the **cost** of commercial real estate borrowing, 10-year fixed conduit spreads, dropped 28 percent in the last month, according to Morgan Stanley.

Zell, 66, sold Equity Office Properties Trust, the largest owner of U.S. office buildings, for \$39 billion including debt in February 2007, five months before the credit crunch.

‘Ex-urban’ offices

The value of the best **office buildings** in city centers will weather the slowing economy, Zell said. He said he's more concerned about flashy glass towers built in far suburbs.

“I'm sure there's going to be some casualties, particularly in what I would call ex-urban, the glass-block commodity office building,” he said. “I don't think there is going to be any casualties in **Manhattan**, I don't think there's going to be any casualties in any of the first-class office space around the country. The commercial real estate market is going to do terrific no matter what the economy does, short of a depression.”

International investments will also continue to boost U.S. commercial real estate, with available opportunities overriding overseas antipathy toward President **George W. Bush**, Zell said.

“After they get through bashing **George Bush**, the very next question is, ‘Where's my visa?’” Zell said. “There is not another environment in the world that matches the U.S. in terms of opportunity, creativity, acceptance of change, acceptance of failure.”

In June, Zell bought Chicago-based media company Tribune Co. for \$8.3 billion and took it private. Tribune's holdings include the Chicago Tribune newspaper, the Chicago Cubs baseball team and its Wrigley Field home, and WGN-TV. He remains chairman of Equity Residential, the largest U.S. owner of rental property.

Zell ranked 164th on Forbes Magazine's list of the richest people in the world for 2008.

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