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Business Leaders Get It.

Fannie-Freddie crisis hits banks

Local lenders face investment losses as stockholders in housing finance firms

By KIRSTEN GRIND
STAFF WRITER

In the weeks leading up to the recent federal government bailout of Fannie Mae and Freddie Mac, Lars Johnson would regularly wake up in the middle of the night to check for news on the beleaguered mortgage giants.

Johnson, chief financial officer of Cascade Bank, in Everett, had every reason to be concerned.

The bank, with 21 branches across the Puget Sound region, owns 800,000 shares of preferred stock in the two housing finance companies, and the value of that investment has plummeted dramatically over the past several months.

What's more, the government's recent decision to place the two companies in conservatorship and its pledge to

pump in billions of dollars as needed to shore up their liquidity only made the situation worse for Cascade and a handful of other banks across the Puget Sound region holding large chunks of shares of the companies.

As part of the rescue, the U.S. Treasury Department suspended dividends on the preferred stock — a steady income stream that the banks counted on — and shares of Fannie and Freddie dropped even further.

The result is that a number of local banks will be forced to take multimillion-dollar losses on the stock, which will weaken their capital levels and have a negative effect on the Puget Sound region's financial stability.

The value of Cascade's stake has dropped as much as 95 per-

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BUSINESS JOURNAL PHOTO | Dan Schlatter

Washington Mutual's headquarters

Asset sale at WaMu?

Unloading real estate could aid troubled lender

By JEANNE LANG JONES
STAFF WRITER

Washington Mutual's headquarters building could be worth nearly \$400 million to the struggling thrift or a potential buyer.

Washington Mutual Inc. owns its portion of the 42-story high-rise tower it built in partnership with the Seattle Art Museum, or approximately 944,000 square feet of space, according to its annual report.

Greg Johnson, president of real estate development and management firm Wright Runstad, thinks there would be strong interest among foreign and domestic institutional investors in the building should it be put on the block.

"They would view it as a terrific opportunity at the right price," Johnson said. "To own a really high-quality asset in a long-term, high-quality market like Seattle, with fabulous views, attractive architecture — that would compete very favorably with other downtown office

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Federal food aid stimulates economy

By CLAY HOLTZMAN
STAFF WRITER

Stretched thin by rising inflation, a slumping economy and weakening job growth, more Washington residents are applying for federal food aid.

And in a move that could help bolster Washington's flagging economy, the state will broaden the program's eligi-

bility next month, which could generate hundreds of millions of dollars in new economic activity.

Every \$5 in federal food aid generates \$9.20 in local economic activity, according to the federal government. That means the \$680 million in federal food assistance received by Washington in the past fiscal year — about half of what the state is actually eligible for — cre-

ated more than \$1.25 billion in total economic activity.

But by expanding the program's eligibility and encouraging more residents who qualify for aid to enroll, Washington could eventually realize a total economic benefit that approaches \$2.5 billion — about half the economic impact of the state's apple crop.

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Senators predict online school changes

By CLAY HOLTZMAN
STAFF WRITER

Two state Senate education leaders are promising new legislation to tighten the oversight and monitoring of online public schools.

Sen. Rosemary McAuliffe, D-Bothell, who chairs the Senate Early Learning and K-12 Education Committee, said the proposals will be part of the next legislative session, which starts Jan. 12.

McAuliffe said she is concerned over the apparent lack of statewide oversight of online programs, which are often heavily marketed to parents by private pro-



EDITOR'S NOTE:
Online schools educate a growing number of Washington's children since a 2005 state law gave online providers the same per-pupil funding as traditional schools with classrooms.
— A continuing series —

viders paid with state education dollars.

The committee's vice chairman, Sen. Rodney Tom, D-Bellevue, said the state doesn't know what content is being taught in the majority of online classes, which are growing in popularity.

"Online learning is at that stage when it is going to explode," Tom said.

However, the two senators' concerns about online oversight aren't universally shared in Olympia.

"It really hasn't even been on my radar screen," said Rep. Dave Quall, D-Mount Vernon, who

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Stanley Xu makes \$19.3M deal for Everett apartments

Real estate investor draws on strong relationship with lender; sees Boeing-related employment growth in Snohomish County

By JEANNE LANG JONES
STAFF WRITER

In tough financial times, it pays to have a solid relationship with a lender. Stanley Xu's 15-year track record of investing in local apartment properties gave the Bellevue real estate investor the edge he needed to complete his second major purchase of this year.

"There were not a lot of competitors," said Xu of his recent \$19.3 million purchase of the 249-unit Parkridge Apartments at 120 W. Casino Road in Everett. "It is very difficult to obtain senior loans for properties. We got the loan from GE Capital because we have a strong relationship with them."

With the latest deal, Xu has now completed eight transactions with GE Capital for a total of more than \$150 million in loans. The CEO and president of Bellevue-based Longwell Co., Xu now owns more than 2,000 units in the Puget Sound region.

Xu specializes in fixing up aging apartment complexes and raising rents. Xu figures he will spend about \$3 million updating the Parkridge complex. The seller, Charlie Diesing, remains an equity partner in the project.

Dave Meissner, a principal at Paragon Real Estate Advisors Inc. in Seattle, handled the transaction for the parties.

A key reason Xu bought the property is that he anticipates strong employment growth in the Everett area as more Boeing suppliers move operations to be closer to Boeing's 787 plant.

Earlier this year, Xu completed another large purchase, paying seller San Francisco-based Bascom Northwest \$38.2 million for the 382-unit Avante apartment complex in Kent. Hendricks & Partners principal Kenny Dudunakis handled the transaction for the parties.

Dudunakis describes the current apartment market as "a smorgasbord for buyers" with properties in Bellevue and Redmond up for sale that normally "really don't come up on the market."

The Puget Sound area remains an attractive market for buyers because its two main economic drivers, Boeing and Microsoft, are more closely tied to the global economy than the national economy, Dudunakis said.

Investors these days are required to put more money down than previously on their deals but a lowering of interest rates could ease the added stretch. Dudunakis expects the current turmoil in the financial markets will prompt another cut in interest rates, which would bring more potential buyers "off the sidelines."

Mike Scott of Dupre+Scott Apartment Advisors in Seattle expects the turmoil in the financial markets may slow sales, although "the uncertainty may convince some that bricks-and-mortar is not a bad place to put some money."

For his part, Xu is still shopping, hoping to pick up an additional 500 units this year.

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