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# Financing troubles loom for commercial real estate

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While the real estate industry in South Florida and across the country may be showing some glimmers of hope, there still is likely to be more pain in 2010 -- particularly when it comes to commercial real estate financing.

That was the consensus Tuesday from a variety of local and national industry leaders gathered for the Urban Land Institute's South Florida Economic & Development Outlook.

``We are starting to see the bottom,'' said Eric Swanson, executive vice president of Flagler, a Coral Gables real estate firm, and chair of ULI's Southeast Florida/Caribbean Council. ``It's probably not going to be a great year, but it's going to be a better year than 2009. The mood is pretty optimistic for 2011.''

One of the major problems looming is a commercial real estate finance crisis, as commercial mortgages come due for refinancing on projects that are underwater.

Delinquencies on Commercial Mortgage Backed Securities are expected to steadily increase from the current level of about 4 percent, hitting a peak in late 2012 at 12 percent.

``This crisis could have a long tail,'' said Stephen Blank, senior resident fellow in finance for ULI. ``The aftershocks could go on forever.''

The issue is what the industry has dubbed the game of ``extend and pretend.'' That refers to a tendency by lenders to extend the term of a loan in order to avoid writing down the value of the asset, which could have seen as much as a 50 percent decline.

Some speakers blamed the government for failing to do anything about the problem and propping up the banks with federal support.

**NO CATALYST**

The question is whether what happened during the savings and loan crisis -- when properties were sold off at fire-sale prices by the Resolution Trust Corporation -- would have yielded better results.

``There is no catalyst today for things to move,'' said Merrick Kleeman, managing partner of Wheelock Street Capital, a real estate private equity firm. ``Last time the government was the enforcer. This time they're the bartender.''

Troy Taylor, president of Algon Group, which specializes in distressed asset workouts nationally, says the key to a successful workout is getting both lenders and owners to accept the new reality of what projects are worth.

Until that happens on a large scale, any recovery is going to be hampered.

``You're not going to see the bottom until you blow through all this stuff,'' Taylor said. ``Let's go have surgery and put it behind us.''

The worst thing a property owner can do, said Taylor and other speakers, is use available cash to keep making interest payments on a project that is already underwater. Taylor said that workouts are more effective if a firm such as his comes to the table before the final hour because a major restructuring can take six months to a year.

Cyril ``Sid'' Spiro, chairman and chief executive officer of Regent Bank, agreed that one of the biggest problems is borrowers who don't recognize issues ``quickly'' and bring them to the attention of lenders.

**CROSSROADS**

On a broader economic perspective, an executive with the Federal Reserve Bank of Atlanta suggested the economic recovery stands at a crossroads. The question is whether the recovery is a quick one (shaped like a V) or long and ``painful.''

Dr. David Altig, senior vice president and director of research at the Atlanta Fed, said he tends to take the more pessimistic view but wouldn't be surprised to see things go the other way.

What concerns Altig most is the level of unemployment, which is higher in Florida than the U.S. average. ``If the unemployment rate doesn't come down significantly, the lifting of the fog is not going to happen,'' he said.