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### **Kevin Daniels: Storm clouds are brewing for 2010**

· *We need to figure out how to refinance \$1 trillion worth of commercial property loans before it's too late. "Rich developers" are not the only ones at risk.*

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In the last year, we have watched as our nation's financial system teetered on the brink of disaster. We watched the global financial system strain under the weight of bad judgment. The failures of Bear Sterns, Lehman Brothers and even our own Washington Mutual seemed preposterous just a few years back.

Recent news about the economy seems somewhat heartening. Whether we are truly out of the darkness remains to be seen, but the actions of our elected officials earlier this year gave the financial system some confidence that the worst might be behind us. Or is it?

I am frequently asked for my outlook on the commercial real estate industry in 2010, and it grows darker by the day. I am troubled by the recent actions of federal regulators, aggressive in their views and directives, acting as if the financial system has fully recovered. It has been widely broadcast that there is more than \$1.2 trillion worth of commercial property loans coming due in the next few years. Yet, there exists no commercial finance market large enough to meet demand, and no efforts by Congress or the president to seriously address the issue. With the loss of Bear Sterns and Lehman Brothers, and the other large Wall Street houses becoming banks, the only viable alternative appears to be insurance companies. But the insurance companies can handle only a sliver of the required refinancing even in the best of times.

I am the first to agree that the "pretend and extend" model some banks appear to have adopted last year is a dangerous strategy, but understandable and maybe even prudent given the situation. It actually shows a maturity learned from the Resolution Trust Corp. experience, where write-offs were forced on banks more out

of panic than logic. The lesson I learned from that experience was that while ordinary Americans watched their investments head south, large Wall Street firms swooped in and made a killing from the depressed real estate values.

Now, as federal regulators issue their recent edicts to reduce or eliminate banks' current exposure to commercial real estate loans, the outlook becomes exceedingly grim at a time when many of the largest, and thought to be strongest, industry players (Tishman Speyer, General Growth, Black Rock Realty, Opus Corp., etc.) are facing severe financial distress.

Is it good public policy to force good commercial real estate projects into financial distress only to be bought for pennies on the dollars by vulture funds?

Congress and the president need to realize quickly that hundreds of thousands of well-paying jobs surrounding commercial real estate are in jeopardy. They need to start discussing how to refinance these projects before it's too late.

So-called "rich developers" are not the only ones at risk. Almost 70 percent of this country's commercial real estate is owned by public and private pension funds. That means the losers will be ordinary Americans, like teachers, fireman, policeman, and both blue and white collar workers whose financial future is about to face yet another severe challenge. And while these same pension funds will surely provide funding to the vulture funds, I'm pretty confident that it is bad public policy for retirement dollars to be used to wipe out other retirees' investments.

I support that a troubled project with no reasonable chance of recovery should be allowed to fail. But the 90 percent of projects that are not in dire straits, and are now facing probable default from no fault of their own, should have an opportunity to refinance at a commercially reasonable cost.

If members of Congress don't want the refinance answer to lie with the nation's banks, they need to say so and provide a viable alternative.

The financial system is still not healthy enough to creatively solve a problem of this magnitude. But unlike recent interventions, no public bailout is actually needed or desired. A nationwide refinance fund could earn reasonable profits and protect substantial wealth owned by America's middle class. With confident leadership and incentives from Congress, plenty of parties will provide the necessary liquidity without increasing the nation's debt.

With this "perfect storm" threatening to engulf the commercial real estate industry in 2010, the outlook appears dire. This will mean that architects, engineers, appraisers, developers, contractors and even bankers are in for another rough year, and no amount of stimulus activity will gloss over that fact.

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