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In the new U.S. property market, old guys are hot

Thu Mar 5, 2009 3:24pm EST

By Ilaina Jonas - Analysis

NEW YORK (Reuters) - Ted Leary's retirement was short lived. After saying good-bye to real estate in 2005, Leary headed for the golf course, but the collapsing commercial property market interrupted his game.

A career that began in the 1970s with the rehabilitation of soured real estate investments had come full circle.

"Suddenly, at the tender age of 64, people are calling me because there aren't many workout people around," he said, referring to the art of solving problems linked to troubled real estate.

As more deals run into trouble, grizzled veterans with a broad range of knowledge in finance, law, property management and relationship management -- along with keen negotiation skills -- will be in demand.

"You sort of put that whole mix together, you've got yourself someone that's going to be sitting pretty in terms of being able to step into what are going to be increasingly difficult times," said Anthony LoPinto, chief executive of real estate executive search firm Equinox Partners.

Leary learned workouts during the 1970s real estate bust. His firm, Crosswater Realty Advisors, counts Victor Palmieri, one of the first U.S. turnaround specialists, as one of its senior advisors. The firm represents large institutional investors at odds with pension fund advisors, who derive fees from the value of assets that are now declining rapidly.

All of the firm's senior board members, except for one are over 60.

"I call it the senior advisor group because at least a couple of parts of your body have to be sagging," Leary said.

Commercial real estate values were on a steady ascent in the 15 years to their peak in 2007.

"We've had a whole generation of people in our business that have never seen anything but numbers that get better," Leary said.

But the era of the high-leverage deal ended abruptly and debt financing, the life-blood of the industry, has slowed to a trickle. The sector is in a steep downturn, with sales drying up and values falling.

More than $737.4 billion in mortgages are expected to come due in the next five years, according to the Mortgage Bankers Association. Meanwhile, property values are likely to have fallen roughly one-third from the peak levels of 2007, according to Prudential Real Estate Investors, more evidence many borrowers may not be able to repay old mortgages with new ones.

That means the sector will need people with experience in workouts -- the process of financially and legally solving problems related to broken loans, orphaned properties, disgusted investors and byzantine debt structures -- all done within the context of an overall economic mess.

"The word workout comes from 'we have a problem, we have to work it out,'" said John Peters, principle of real estate recruitment firm Peters & Associates.

Banks, financial firms, investor groups and special servicers, which oversee distressed loans supplying cash to pools that pay commercial mortgage-backed securities (CMBS) obligations, are soon expected hire or contract people to handle what looks to be barrage of workouts.

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Many of the workout professionals will be alumni of the Resolution Trust Corp, which the U.S. government created in 1989 to help sell off distressed real estate held by collapsed banks, thrifts and savings and loans institutions.

But this time the problems will be more complicated and expansive than in 90s. Many of the loans and properties are held by companies that are still in business. Extracting the toxic loans without killing the host will be tricky.

"Back then assets were harvested from a cadaver. In this case, it's living organism," Leary said.

Secondly, more than $700 billion of senior mortgages outstanding are in CMBS, with $25 billion maturing in 2009 and $40 billion to $50 billion per year between 2010 and 2014, Prudential said. That means many different investors lay claim to the cash flow of the same mortgage.

"That's one of the big differences between this period and the period of the early 90s," LoPinto said. "If you look back at it, the exit strategy of the early 90s debacle was securitization. This time around, the unwind is going to be the unwind of securitization."

The delinquency rate for CMBS loans soared to about 1.63 percent in February from 0.6 percent in September, when the credit crisis escalated, according to Deutsche Bank. It could reach 3.5 percent by the end of 2009 and 6 percent by the end of 2010, depending on the credit markets and the economy, said Richard Parkus, Deutsche Bank's head of CMBS research.

Most of the trouble lies with borrowers who can meet monthly interest payments but can't refinance the principle because credit markets have shut down.

"The loans in bank portfolios are a lot worse than the loans in CMBS," Parkus said.

Further, there are the mezzanine loans and preferred equity that were used to finance property investments.

"The complexity of the debt-structure level has gone up 100 degrees," said Keith Belcher, J.E. Robert Cos managing director, and head of its CMBS special servicing division.

But younger, less experienced people will still be able to find a place in the workout workforce.

"They're not all going to be 50-year-old gray haired guys," Belcher said. "They're going to need a support group that's going to give some young people, some relatively inexperienced people, help to learn the business along the way."

(Editing by Andre Grenon)

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