

SOUTHEAST REAL ESTATE BUSINESS

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SOUTHEAST FINANCIAL UPDATE

Insurance companies re-emerge in thawing market.

Jon Ross

In the years before the Commercial Mortgage Backed Securities (CMBS) era, life insurance companies provided retail, office and industrial developers and owners with a reliable source of real estate loans. The terms weren't outstanding, but they were fair. In the free-wheeling years before the recession, insurance companies faded into the woodwork because they simply couldn't compete on a level playing field with the CMBS lenders. Insurance firms saw an opportunity to re-enter a market, albeit a completely frozen one, when the crash hit. Today, these organizations are offering loans, but far from being new to the game, these institutions are just riding the market wave.

"[The insurance companies] have always been there, but with the very aggressive lending standards from the CMBS market, they were pushed to the sidelines," says Henry Lorber, a managing director of Atlanta-based Hays Financial Services. "They were still doing deals — there were enough deals to be done — but the noise of the CMBS financing drowned out the insurance company guys."

This re-emergence of insurance lenders is representative of the financial market in the Southeast. Borrowing standards are conservative and the number of lenders has diminished, but small amounts of capital still exist for the right project. Familiar faces have popped back up, but this

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FANNIE AND FREDDIE'S NEW LOOK?

Government lenders are poised for a transformation.

Jon Ross

In the multifamily real estate lending environment, Fannie Mae and Freddie Mac shoulder a large burden. Life insurance companies handle close to 20 percent of the money market for apartment complexes and condos, but Fannie and Freddie — two governmental institutions — take the rest of the responsibility.

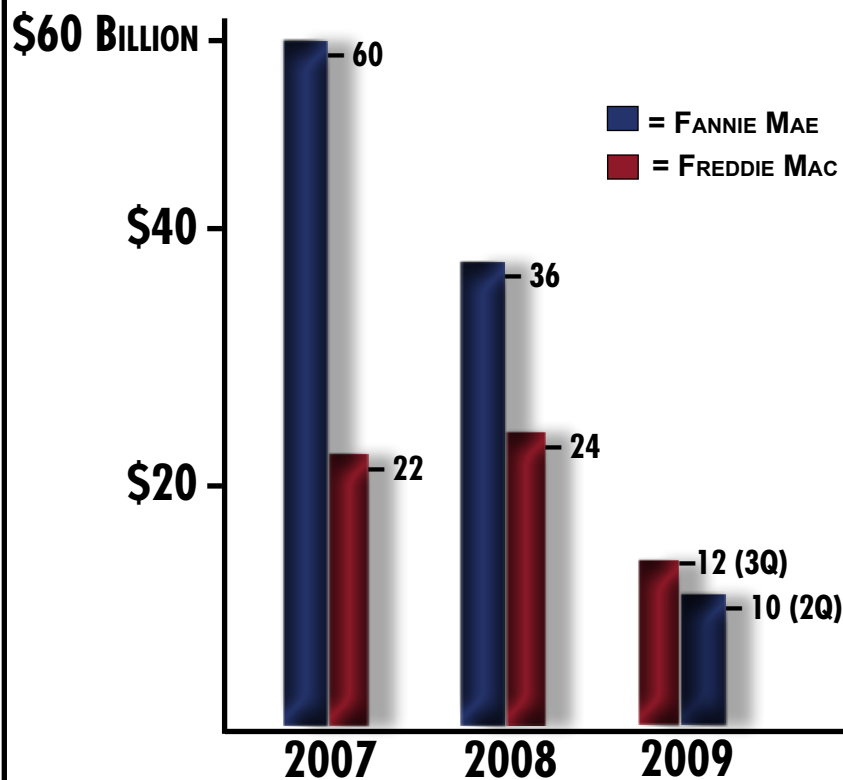
The balance of power, and the fact that there are only a limited number of lenders in the market, is fundamentally flawed and unsustainable, says Kieran Quinn, vice chairman of Walker & Dunlop. Quinn served as a director of the Mortgage Bankers Association (MBA) until last year, and chaired the organization in 2008. From his position, he's helped the MBA draft a proposal to reformulate the two government-controlled lenders.

"What we really want is privately chartered companies," he says.

The MBA proposal goes into detail about the goals Fannie and Freddie should

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GSE LENDING VOLUME 2007-2009



SOURCES: FANNIE MAE, FREDDIE MAC

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has only provided a little relief for borrowers because the financial foundation is still shaky.

The multifamily lending market exists in a different sphere. The presence of Fannie Mae, Freddie Mac and the Federal Housing Administration means there's money out in the market. While these loans aren't on 2006 terms, developers looking to build multifamily complexes and buyers looking for acquisition loans still have options. "The availability of financing depends on product type," Lorber says. "You have three other sources for multifamily that aren't there for office buildings or shopping centers."

On the retail, office and industrial side, fear is still being felt throughout the market. The Federal Deposit Insurance Corporation has made a plea to banks in an effort to retard the economic freefall; it has asked lenders to stop making as many new real estate loans. This is helping insulate banks from further trouble; Lorber thinks banks will eventually be "less discouraged" from making these types of loans.

"I expect to see the banks, once the pressure is off from the FDIC, move aggressively into the mini-perm market, 3- to 5-year financing on very conservative terms in the hope that

at the end of the fifth year, there will be a CMBS market to take them out," he says.

The question being bandied about by real estate experts is not if the financial markets will come back, but when. Trust between lenders and consumers has deteriorated, and asset values have flown out the window. This trust was lost when the CMBS market bottomed out, and it will take a while to fix the system.

An evaporation of fear and the return of the CMBS market are important steps to improving commercial real estate's financial picture, but job losses are also a factor in regaining monetary stability. Even if there was capital in the open market and banks and other financial institutions were lending again, fundamentals have still been impacted hard by the recession. The industry itself needs to get back on its feet before the financial markets can regain any strength. "Sitting where we sit today, it looks like a slow growth climb out," says Randy Wolfe, a senior vice president at Northmarq Capital. "The powers that be in Washington have finally figured out that jobs, jobs, jobs is what it's all about. Jobs are what makes real estate go."

The Troubled Asset Relief Program was pitched by the government as

a shiny panacea, but Wolfe says the infusion of cash to large banks around the country has done little to help commercial real estate borrowers. When these institutions received the money, the banks simply used it to fortify sick balance sheets, not handing much out to consumers. "[The banks] were interested in staying alive, and I think deep down inside the powers that be that arranged that, that was the primary mission there. Everybody talks about, 'oh, we're giving them money so they can turn around and lend it out,'" Wolfe says. "I don't think that was the real intent; it didn't happen, either."

There is a glimmer of hope in the market for borrowers needing smaller loans. The regional and local banks that still have capital are more willing than their larger brethren to finance the right project. But as with the insurance companies, the definition of the "right project" has shifted, and requirements for loans now include a hyper-local qualifier. "One of the big things you've been hearing from bankers for over the last year is, 'we want a relationship, we don't want a transaction,'" Wolfe says. "In the past, you presented a loan request to a bank and that wasn't so important. They wanted to make a loan and get the

earnings off it."

Chad Thomas Hagwood of Capmark Finance's Birmingham, Alabama, office thinks specialized lenders will emerge from the financial rubble. These financial institutions will start by slowly entering the market, making a few loans and hoping for the best. If the world doesn't end, more lenders will follow suit. "I don't see any massive changes over the next 6 months or so," Hagwood says. "You are starting to see, on a limited basis, some lenders dip their toes in the water. This is more of a one-off solution or a property-specific solution; this is not the solution en masse that the borrowing community is looking for."

Hagwood, like Lorber, emphasizes that jobs will fuel any resurgence in the financial markets. Until the economy turns around and firms start hiring again, all this lending talk will be exactly what it is — talk.

"You've got to have people with jobs first before they can spend money at the shopping center. You've got to have people spending money at the shopping center before the retailers are going to need warehouses," he says. "For anything to start, there's got to be job growth in the country." □

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