

## **NAIOP session: Capital crunch continues, but asset interest rising**

By **THOR KAMBAN BIBERMAN**, The Daily Transcript  
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With interest rates going through the floor, there may be little incentive for banks to lend, but that doesn't mean people aren't interested in commercial property assets.

The state of the capital markets, commercial real estate and how long the downturn will last were the topics at a National Association of Industrial & Office Properties (NAIOP) session at the Marriott in Del Mar Heights this week. Donald Ankeny, president and CEO of **Westcore Properties**, moderated the event.

D. Michael Van Konyneburg, **Eastdil Secured** president, said as bad as it may seem now, conditions are much better "than seven months ago when we were at the edge of a precipice."

Van Konyneburg, who flew from New York for the session, said while he thought there would be a lot more activity, "it seems everybody is sitting on their cash."

Van Konyneburg added that in the rare cases these days where there are properties offered in the \$25 million to \$70 million range, there may be 30 different parties gunning for a single asset.

All acknowledged that the capital crunch continues to be a problem, but Douglas Wilson, chairman and CEO of the **Douglas Wilson Cos**, who has acted both as a developer and a receiver, suggested the lack of properties on the market is a more fundamental issue than the lack of capital.

"Everybody has a fund. Heck, my mailman has a fund. What we don't have is a place to put it ..." Wilson said. "Capital is desperately searching for able partners."

"At a time when the pricing is down 35 percent or more from a year ago, the demand for assets and the demand for loans to fund them are picking up," Van Konyneburg said.

When asked how long the downturn in the commercial markets will last, Brian Driscoll a senior vice president with **Grubb & Ellis|BRE Commercial**, said he is afraid it will be a while.

"I think we're in the third inning of a very slow ballgame," Driscoll said. Van Konyneburg said while 2010 will be slow for the commercial sector, "2011 should be very active."

"It's going to be very slow for a while and will take a lot of patience," Alex Zikakis, **Capstone Advisors** president added.

Zikakis said he believes commercial property prices have pretty much bottomed out. He then used the homebuilding market as an example to show how quickly prices and conditions can change.

"The value of finished lots has gone up dramatically in the past six months," Zikakis said. "People overestimated the supply. Public

homebuilders are very much back in the game but their inventory of land is completely depleted."

The commercial prices may or may not have bottomed out, but Van Konyenburg said there is a lot more certainty about those prices than six months ago.

"If you look at an asset, you know what it's worth," Van Konyenburg said. "You may not like it, but you know what it's worth."

In the meantime, commercial real estate properties continue to get into trouble. Wilson said between the golf, hospitality and retail properties he oversees across the country he is responsible for \$1 billion in distressed assets.

Ankeny added that with about \$1.5 trillion in commercial mortgage-backed securities slated to come due within the next five years the problem is only likely to get worse. Van Konyenburg agreed that the problem is huge, but not insurmountable.

"About \$3 billion a month is going into default, but a lot of these loans will get worked out through extensions," Van Konyenburg said. Depending on how long the downturn lasts, Van Konyenburg admitted that in some cases this could just be "pushing a problem down the road."

"Are lenders doing the right thing by kicking the problem down the highway?" Ankeny asked.

Wilson said there will need to be a substantial workout period to purge the system of troubled assets and loans.

"It will take 4 1/2 to five years of flushing to get through this," Wilson said. "And unless you are living under a rock, everyone is seriously impacted by this."

Zikakis then wondered aloud how assets are going to be flushed through the system when banks continue to fail, but both he and Ankeny sounded hopeful the FDIC will be able to manage the carnage. Driscoll said the fundamental problem behind all of this is the fact that 8 million jobs have been lost in this country since the recession started last year, "and they say that 50 percent of those jobs aren't coming back."

But Wilson, who has been through a few of these downturns before, said "while you may feel you're going to sit in this quagmire forever, the sun will come, you'll do well and quality will always get you in the end zone."