

Online EXCLUSIVE Last updated: February 6, 2009 12:20pm

The Hunt for Capital

By [Don Jergler](#)

LOS ANGELES-If you're looking for money, get in line, join the club and throw out as many more clichés you can, because they all seem to apply.

That's not a revelatory remark, but we might as well get used to it--and probably for another year.

According to a report issued by Foresight Analytics LCC, there's about \$530 billion in debt coming due in the next three years, and \$160 billion of that is coming due in 2009.

What that means is there will be more folks waiting in line for capital. And if you examine the three prime sources of commercial real estate lending--commercial banks, CMBS and insurance companies--you won't find a whole lot of hope, or money.

"In the next three years we have a lot of demand for mortgage capital in commercial real estate," says Wayne Brandt, managing director of Buchanan Street Partners. People seeking financing might find some funding in the insurance company market, "but not nearly enough to bridge that \$160 billion number," says Brandt, who runs Buchanan's debt investment services arm.

However, even the amount coming out of that lending sector may be only a trickle, thanks to the amount of risk still out there, such as rising unemployment, and a continued decline in property prices, he notes.

What about commercial banks, and that \$825 billion in federal TARP money? "The top 13 banks in this country are not recycling that TARP money," he says. "Lending has dropped at all the US banks." He adds, "The banks are scared. They don't know how to price these toxic securities. They're hoarding (the TARP money) and waiting for the storm to pass."

And as for CMBS, most signs point to zero issuance in the next year. That's down from a peak CMBS issuance of about \$230 billion in 2007, and down from around \$30 billion last year. "This market will shut down for the next three years," Brandt notes.

And if you weren't paying attention, what all of that means is "there continues to be no capital in the system that's readily available," says Brandt, who predicts that about half the loans due out there will be extended, some will be reworked through traditional loan workouts and some, an as of yet to be determined percentage, will be closed upon--and very few of the latter will be in the position to obtain adequate refinancing.

"Everybody knows this recession will get worse," he says. That means the banks will lend, but only to their best customers. In affect, Brandt says, "they will make new loans to preserve and protect the balance sheets of those who have been loyal, well-capitalized borrowers with strong balance sheets with decades of experience and a track record."

He adds, "the global system is deleveraging, and this deleveraging means this recession is going to last longer than most Americans expect."

For a broker's view on the finance market, ask Kevin Shannon, a vice chairman at CB Richard Ellis working out of the Torrance office. Voted last year's top broker by Real Estate Southern California with \$2.5 billion in deals between May 2007 and April 2008, Shannon is now working on putting together deals that are a lot smaller than the big portfolio deals that helped him achieve such high numbers. "To get a loan on large asset right now is extremely difficult," he says.

TARP hasn't had a chance to play out fully, and "banks are cautious about what's the appropriate spread," he says. "A lot of these lenders have gotten burned. Eventually, lenders will get comfortable and start pushing money out, but that will take time. It's probably going to take till the second half of this year."

So what are brokers like Shannon doing in this downtime?

"We are still executing marketing programs for clients who want to sell," he says. And like others, Shannon is waiting for the run on distressed properties to begin.

"Distressed sales have been limited in Southern California to the residential side," he says.

"There's going to be more commercial opportunities later this year."

Shannon recently worked on a class A property in Orange County, the Downey Savings headquarters building, which was being sold by the troubled bank, and because of the deal such a property and scenario promised, it had 33 offers on it. "Capital showed up for that deal,"

Shannon says. "There's a lot of capital just waiting for those opportunities."

And there's a logjam on the debt side, but there's a logjam of sellers coming to terms with pricing. "I think the bid-ask spread is going to narrow in the third quarter of this year," he says. "It's going to pickup because sellers are being more realistic, and more sellers need to sell. We're seeing signs of slow improvement."

Jon K. Haahr, managing principal at Silver Portal Capital LLC in San Diego, which arranges private equity capital for investments ranging from \$50 million to \$250 million, says that in 2009, "you're not going to see a lot of investment in the equity side going anywhere except into distressed opportunities."

He says that capital is being selective, and it's selecting what's perceived to be the non-cyclical properties, like student housing, and healthcare related properties. He adds that capital is being "husbanded very carefully."

As far as Silver Portal's concerned, "we are only going to be taking capital arranging engagements on a very select basis," he says. The firm will also be providing financial advice and financial advisory services. In fact, Silver Portal recently revealed the formation of a real estate advisory group. "In the current market, there are more people trying to figure their way out of bad situations rather than raising capital for new investments."

Copyright © 2009 ALM Properties, Inc. All rights reserved. Reproduction in whole or in part without permission is prohibited.
For reprint information call 410-571-5893 or e-mail afaulkner@remedianetwork.com.