



UPDATE 1-US commercial mortgage lenders shun loans in need

By Al Yoon
676 words
20 January 2010
10:30
Reuters News
LBA
English
(c) 2010 Reuters Limited

(Adds Eastdil comment in paragraphs 11-12)

WASHINGTON, Jan 20 (Reuters) - Dozens of lenders at an industry conference this week said they wanted to increase funding for U.S. commercial real estate, now in a steep downturn due to the lack of credit and poor economy.

But the loans they were willing to make weren't the ones that were most needed, leaving many borrowers to struggle, said sources who attended a closed meeting on Tuesday.

The lenders, queried on their plans during a Commercial Mortgage Securities Association conference in Washington, had plenty of cash for office, retail and apartment buildings with solid cash flow and low debt. Conversely, lenders were not willing to extend billions of dollars for maturing loans made at the top of the market.

"It was the tale of two markets," said an executive at a U.S. insurance company, who heard the discussion.

Fresh sources of financing are crucial for the \$700 billion market for commercial mortgage bonds secured by loans supported by equity that has vanished over the past two years as revenue and property values plunged. Debt markets have not refinanced much, and traditional portfolio lenders such as insurance companies and banks are loath to touch loans made when underwriting was lax.

The problem of refinancing will likely worsen in 2010, when nearly \$29 billion of just fixed-rate loans in CMBS -- or nearly five times that of 2009 - is set to mature, according to Citigroup Inc. That number will grow by a third next year.

At odds with the maturing loans is a loss of \$96.4 billion in funding from major sources of commercial mortgage lending, annualized, in the third quarter, the Citigroup data shows. The sources -- led by banks, bond issuers and insurers - provided \$169.6 billion and \$371.1 billion in annualized flows over 2008 and 2007, respectively.

The portfolio lenders, which make mortgages to hold on their balance sheets as opposed to lending with intent to sell off the risk to investors, will likely remain skittish about the maturing loans unless they reflect today's lower property revenue and values, or the U.S. employment picture improves, said the insurance executive and other attendees.

These lenders are especially important amid the slow recovery for commercial mortgage bonds that by 2007 had become a top source of funding for commercial real estate. Investors polled during a separate CMSA panel expected credit markets to fund \$10 billion to \$20 billion in 2010, said attendees.

"There's a ton of capital out there, but people aren't finding the deals they want to invest in," Jack Cohen, chief executive officer of **Cohen Financial** said during a panel discussion later on Tuesday.

Michael McDonald, managing director of Eastdil Secured, on Wednesday reminded CMSA members that there are plenty of investors looking for high yields on properties that have already endured the pain of write-downs and de-leveraging. This creates a "barbell" situation where the lending activity is centered in the best and worst properties, he said.

"People either want distressed returns or income security," McDonald told Reuters in an interview.

With borrowers and lenders now in feverish negotiations over modifying loan terms to avoid disastrous results when loans mature, including default and bankruptcy, it's unlikely those lenders looking for a safe place for their cash will find many opportunities soon, panelists agreed. And competition to lend on good properties unburdened with heavy debt is so great that lenders sometimes bow out, the insurance executive said.

The pain of reducing debt, or de-leveraging, can't be avoided by investors and original lenders forever, some said.

"No one has been told they have to pay their money back yet," Jack Taylor, a managing director at Prudential Real Estate Investment, said on the later panel. "There's this extend and pretend." (Editing by Andrea Ricci and Kenneth Barry)

MORTGAGES-COMMERCIAL/FUNDING (UPDATE 1)|LANGEN|ABN|E|RBN|M|D|U|RNP|DNP

Document LBA0000020100120e61k0014u