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Commercial Real Estate

Panel lines up on different sides over where industry is headed

By: Eric Kalis

Is the commercial real estate market really the next domino to fall in the recession?

A panel of four commercial real estate power players — one developer, two brokers and a bank president — discussed how the sector will fare in the rest of 2009 and beyond last week.

"I am a pessimist, given the information we have," William Heffernan, president and CEO of TotalBank, said during the event hosted by the Coral Gables Chamber of Commerce at the Biltmore Hotel. "Finding sources of liquidity are tremendously difficult right now." Concerns are intensifying among lenders like Heffernan and commercial real estate owners that the sector could be submerged by billions of dollars in defaults. Late loan payments and defaults on office, retail and hotel properties have more than doubled in the last six months, according to Reis, a New York-based research firm.

The apartments sector, which includes failed condominium conversion projects, and industrial buildings have had more than an 80 percent increase in defaults and delinquencies.

With the industry flooded by foreclosures, establishing property values will be a major problem, Heffernan said. A standoff among owners, lenders and potential buyers on what properties are worth could bring new deals and loans to a halt.

Miami-based TotalBank posted a \$1.6 million profit in the first quarter after taking a \$6.5 million hit in the fourth quarter of 2008, according to the bank's March 31 filing with the Federal Financial Institutions Examination Council. But the bank has more than \$50 million in loans that are between one and three months overdue.

As institutions like TotalBank address portfolios of bad loans, the downturn has created an opportunity for smaller community-oriented banks to aggressively issue loans, Heffernan said.

"Community banks will rise and be the [primary] lender," he said.

Broker and investor Thomas Byrne, president of Esslinger Wooten Maxwell Commercial, was far more optimistic than Heffernan about the commercial market's outlook. This is one of the most opportunistic times ever to buy commercial real estate, said Byrne, who cited his lifelong goal to buy one commercial real estate property each year.

"If your mind is open and you have a sound plan, opportunities are plentiful," he said.

While today's commercial real estate investments won't set price records, savvy investors are making good deals, Byrne said.

He cited investor Ken Rosen's \$8.5 million purchase of the Park Place I and II office towers in Coral Gables as the kind of commercial real estate sale that will define the market until the economy rebounds.

"Ken got 50,000 square feet of rentable office space at \$172 per [square foot]," Byrne said. "That will go down as the deal of the year."

Developer W. Allen Morris said the outlook is mixed.

"We have the best investment opportunities in a generation, since the mid-1990s," Morris said.

But he said Miami-Dade office landlords in the next two years will face rising vacancies and a softening of rental rates as three major projects, Met 2, Brickell Financial Centre and 1450 Brickell, bring nearly 2 million square feet onto the market in the Brickell and downtown areas.

Morris speculated that at least one of those projects may not be completed until some of the existing space is filled.

"I wouldn't be surprised if [one of the three projects] boards up for a while," he said. "That is what happened during the last cycle in



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cities such as Denver and New York.”

Morris is planning Ponce Towers, a 215,000-square-foot office building at 2801 Ponce de Leon Blvd., within the site of the Old Spanish Village mixed-use development in Coral Gables. The project is scheduled for a 2011 completion.

On the retail side, the sector has been hit hard by the economic crisis, said Barbara Tria, senior commercial associate at Kerdyk Real Estate.

But Tria said landlords and brokers are encouraged by plans of some prominent national retailers, including Bed, Bath & Beyond, Nordstrom Rack and Loehmann’s, to add locations in Miami-Dade County.

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