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As the commercial real estate market heated up earlier in the decade and lenders competed feverishly to issue ever-riskier mortgages, hundreds of bankers, investors, lawyers, brokers, appraisers, accountants and analysts flocked to an investors' conference in Florida each January to celebrate their good fortune with lavish beach parties featuring bikini-clad models and popular entertainers.

But in what a Prudential Real Estate Investors report described as "a move of near-perfect symbolism," the conference sponsor, the Commercial Mortgage Securities Association, recently announced that next year's event would be relocated from South Beach to Washington, where the industry has been lobbying strenuously for federal assistance.

These days, the people who buy and sell office buildings, shopping centers, warehouses, apartment buildings and hotels are hardly in a festive mood, despite some recent encouraging signs relating to the job and housing markets and a recent increase in sales of small office buildings.

Even though industry lobbyists were able to persuade Congress to extend a loan program aimed at prodding the stalled securitization market back to life, several analysts said it was unlikely to head off a spate of defaults, foreclosures and bankruptcies that could surpass the devastating real estate crash of the early 1990s. "It will prop up a few deals, but you can't stop the wave that's coming," said Peter Hauspurg, the chief executive of Eastern Consolidated, a New York brokerage firm.

The distress is still in its early stages, analysts said. "We are between the first and second inning," said Richard Parkus, who directs research on commercial mortgage-backed securities for [Deutsche Bank](#). "We're going to have to get through a very difficult period."

Mr. Parkus said that vacancy declines and rent increases already mirrored what happened in the 1990s, and until new jobs were created, generating an

increase in demand for commercial space and more retail spending, this was not likely to be reversed.

Building values have declined by as much as 50 percent around the country, and even more in Manhattan, where prices soared the highest. As many as 65 percent of commercial mortgages maturing over the next few years are unlikely to qualify for refinancing because of the drop in values and new stricter underwriting standards, he said.

[Fitch Ratings](#) recently reported that \$36.1 billion in securitized loans — mortgages pooled, sliced into different categories of risk and sold to investors — have been transferred so far this year to a “special servicer,” an agency that handles troubled loans. Such a transfer is prompted by a bankruptcy, a 60-day delinquency or the prospect of an imminent default. In all, some 3,100 loans representing \$49.1 billion, or 6.1 percent of the total, are currently in special servicing, an amount that could grow to nearly \$100 billion by the end of the year, Fitch said.

But the damage is expected to be even greater for banks, which are holding \$1.3 trillion in commercial mortgages (including apartment buildings) and \$535.8 billion in construction and development loans, said Sam Chandan, the president of Real Estate Economics, a New York research company. About \$393 million worth of mortgages are scheduled to mature by the end of next year alone, and an estimated \$39 million more were due to expire this year but have been extended, he said.

By midyear, Real Capital Analytics, a New York research company, had identified \$124 billion worth of distressed property. Less than 10 percent of the distress had been resolved through loan modifications or sales.

The downturn in commercial real estate is already having repercussions for local governments. New York City’s general fund, to cite an example, collected \$2.1 billion from transfer and mortgage recording taxes at the peak of the market in the 2007 fiscal year, according to Frank Braconi, chief economist for the comptroller’s office. This fiscal year, it is expected to receive only \$767 million, he said.

In New York, with its concentration of tall office towers, commercial mortgage-backed securities play a bigger role than they do elsewhere. The brokerage firm CB Richard Ellis estimates that about half the transactions in recent years involved securitized financing.

The mechanism set up to manage problems with the underlying mortgages is being put to the test for the first time. Some longtime real estate investors who profited from the ready access to mortgages made possible by securitization now complain that the system is impersonal and rigid. Instead of negotiating directly with a lender sitting across a table, Norman Sturner, a partner at Murray Hill Properties, a New York real estate company, said he had been forced to deal by telephone with “a third party sitting out in the Midwest” who seemed indifferent to his problems.

Since the master servicer, which handles the routine servicing of the loan, has no authority to restructure it, the landlord has no way to tackle anticipated problems before it comes into the hands of a special servicer and is already in trouble. “What’s going to happen when billions of dollars can’t be repaid?” said Mr. Sturner, who owns and operates five million square feet of office and apartment buildings.

Mr. Sturner, a 39-year industry veteran who bought aggressively during the real estate boom, would not comment on any specific loans. But a Manhattan real estate executive, who declined to be identified commenting on another’s business dealings, said that Mr. Sturner recently stopped paying his mortgage on One Park Avenue, a 20-story Art Deco building between 32nd and 33rd Streets, which he bought for \$550 million in 2007, so that he could have the loan transferred to a special servicer.

Last year, one tenant, the Segal Company, a company specializing in employee benefits, said it would move at the end of this year to West 34th Street, leaving three floors at One Park Avenue vacant when new tenants are hard to come by and rents have fallen significantly. Fitch downgraded the securities backed by this loan in August.

The rising incidence of delinquencies and defaults has cast a spotlight on the special servicers, who are chosen by the investors who hold the riskiest bonds, and, in most cases, are part of the same firm. Six companies control 85 percent of the business, according to Fitch.

One source of conflict is that pension funds, endowments and other institutional investors with the most protected securities are often eager to liquidate their positions as quickly as possible, and those with the riskier portions resist taking an immediate loss.

Patrick C. Sargent, the president of the Commercial Mortgage Securities Association, said that despite an apparent conflict of interest, the servicers are

accountable to all classes of bondholders and are required to maximize the proceeds for the investment as a whole. Falling short can lead to a lawsuit or a ratings downgrade. "They are in a fishbowl," he said. "They are going to be watched."

Critics say the special servicers are overwhelmed by the current workload. "The people we are dealing with are swamped beyond any measure," said Paul M. Fried, a managing director of Traxi, a New York consulting company, who is advising borrowers with securitized loans.

But one executive at a special servicer whose employer would not allow his or his company's name to be used said that his firm had tripled its staff in the last two years, and that other companies were also hiring asset managers.

Despite the criticism, Stephanie Petosa, a managing director at Fitch, which rates special servicers, said they were equipped to handle the workload. "I think they are moving at a reasonable pace, given the current environment," she said.