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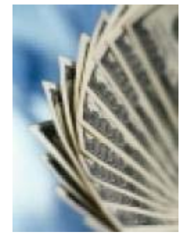
Vornado Realty Trust, other developers seek bailout

Washington Business Journal - by Tucker Echols and Melissa Castro Staff Reporters



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Paralyzed by the credit crisis, the commercial real estate industry is the latest to seek a government bailout of sorts.

In November, a dozen real estate development groups banded together to ask Uncle Sam for help avoiding looming defaults, foreclosures and bankruptcies.

Some of the country's biggest developers, including active Washington market player **Vornado Realty Trust**, have asked Treasury Secretary Henry Paulson to be included in a $200 billion loan program recently created by the government. The program, the Term Asset-Backed Securities Loan Facility, was intended to support the market for car loans, student loans and credit card debt.

In a letter to Paulson, commercial real estate leaders warn that thousands of properties are in danger of foreclosure because current financing is coming due and new financing is hard to come by.

Unlike residential mortgages, which can have up to 30-year repayment schedules, commercial mortgages are repaid over five-, seven- or 10-year terms, with balloon payments at the end of the term. If refinancing is unavailable, an owner would be faced with a distress sale or losing the property in foreclosure.

In commercial real estate's most recent hey-day, the commercial mortgage-backed securities (CMBS) market provided easy money for purchases and refinancing. That market disappeared in the summer of 2007.

Locally, more than 150 commercial buildings financed in 1998 and 1999 will need to be refinanced or sold in 2008 and 2009. In addition, many of the CMBS loans issued at the height of the CMBS market in 2004 are five-year interest-only loans that will come due in 2009, just as the 1999 10-year loans are expiring.

Because credit conditions were also relatively tight in 1998 and 1999, those buildings should be easier to refinance or sell at a profit. But, because the 2004 loans were issued when fierce competition among buyers drove up prices — and lenders' underwriting standards were lax — those buildings may have less equity in them, making it difficult to refinance or sell.

In the Washington region, at least 162 commercial properties — representing $4 billion worth of investment — are classified as either "distressed" or "potentially troubled," according to New York-based analyst, **Real Capital Analytics**. Of those, only 17 are considered distressed, the more dire of the two categories.

Only two properties in D.C. fall into the distressed category, and both are failed condo conversions in Southeast, said Dan Fasulo, a managing director at Real Capital Analytics.

Washington's distressed and troubled commercial property inventory ranks it fifth (by volume) in the nation, behind New York, Los Angeles, Las Vegas and South Florida.

Nationally, real estate industry analysts predict that between $160 billion and $400 billion of commercial mortgages will mature through 2009, with up to $530 billion of commercial mortgages due for refinancing in the next three years, according to the Wall Street Journal.

Treasury officials have indicated a willingness to consider adding commercial real estate to the $200 billion loan initiative, but it could take time. The program is not even expected to be up and running, let alone modifiable, until February.

Not everyone in the commercial real estate industry thinks a bailout is in order.

"Our business is cyclical in nature and is prone to boom and bust," said Andrew Czekaj, chairman and CEO of Cambridge, a Herndon-based developer. "The boom in the last phase of the cycle was underwritten by cheap credit, [and] the Fed's predisposition to over-prime the pump led to riskier and riskier bets."

"This does not require government intervention on behalf of the ownership group. Any intervention will simply prolong the structural problem of the market -- too much capital chasing too few deals -- and lead to a more severe correction later," Czekaj said.