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Experts: Cleansing Period Ahead, Bottom Near

By Natalie Dolce



Town Hall Panel

IRVINE, CA-"I would guess that over the next 24 months, you will see a lot of real estate trade hands." So said Town Hall panelist Bill Halford, president and CEO of Bixby Land Co. at the seventh-annual Incisive Media RealShare event, held Thursday in Irvine. The consensus from panelists at the half-day event, which attracted more than 200 attendees, was that "we are moving forward and are entering a time of cleansing," and that it isn't necessarily a bad thing.

Halford joined moderator Jeff Moore, senior managing director of CB Richard Ellis Inc.; Brandon Birtcher, president and CEO of Birtcher Development & Investments; Guy Johnson, president of Johnson Capital; Martin Pupil, executive managing director of Colliers International; and Tom Sherlock, senior managing director of Buchanan Street Partners during the event's opening panel.

"I think that cleansing is healthy, but it is going to be a painful cleansing," said Halford. "But if you can get your mind past that, and if the numbers or values get low enough, people will start sniffing around investing, whereas 90 days ago, they wouldn't dare even talk about investment."

As with many challenges, positive things do happen and as the bottom becomes more and more clear, there will become more opportunity, agreed panelists. Sherlock sees tremendous opportunity ahead for special servicers. "We have many zombie banks walking around and a lot of them need to be put out of their misery because it has the potential to lead to a worse problem."

In terms of loans, money is out there and it is a lot more than people think, explained Johnson, who-along with other panelists-prefers to look at the glass as half full. "But the dumb money is gone for the time being," he said.

On top of the loans maturing in the next few years, while there is capital out there, the demand for capital is just going to go through the roof, said Sherlock. "A lot of it isn't going to get refinanced and is going to become bank-owned real estate."

Although some say inflation could help be the savior for value, Halford said it's not coming fast enough. "There's a gap the combo of all the debt maturing, and not enough debt origination, and I don't think inflation will come fast enough to help us close that gap, but I wish it would."

Colliers' Pupil-who is looking forward to 2010 after sitting on the sidelines for 12 months-agreed at cleansing creates activity and helps get us to the bottom. The bottom is close by, he explained, but not

here just yet due to all the outstanding loan issues and capital. "It is starting, which is encouraging. I think we are starting to see a shift," he said. "Rents have dropped significantly and everyone is a little more realistic."



Office Panel

The Office Update panel, titled, "Down But Not Out," echoed that sentiment that it is a great time to be a tenant in this market. "It's almost a perfect storm," said panelist Jeff Manley, managing principal of CresaPartners. Manley was joined by moderator Jeff Ingham, executive vice president of Jones Lang LaSalle; Cindy Burger, a managing director with CBRE; John Combs, principal at RiverRock Real Estate Group Inc.; and John Strockis, executive managing director of Voit Real Estate Services.

In Orange County, the wave has hit rapidly and hard, said Strockis, who urges all landlords to get out of the denial phase. "The business model is changing and the asset manager has become real important," he said. "Property owners, banks, and investors are really going to look to asset managers to play a big role in recovery."

The only people who are really doing something right now in this market are the people that have to do something, noted Manley, who's mantra for opportunity is that the earlier a tenant looks at their lease, the more opportunity they have. "Now is a time to restructure."



Workouts, Restructure Panel

At the conference's closing panel, "The Good, the Bad and the Ugly," panelists discussed the importance of being straightforward with a lender for a better result.

Moderated by Gary Tenzer, senior director, principal and co-founder of George Smith Partners, panelists included: Scott Bottles, managing director of Wells Fargo Bank; Jess Bressi, a partner at Luce Forward; Steve Huntley, a managing partner at Huntley, Mullaney, Spargo & Sullivan; Scott Lamontagne, a regional manager at Marcus & Millichap; and Ellen Marshall, a partner at Manatt, Phelps & Phillips.

Huntley advises his clients to communicate early with a lender to let them know as soon as possible that things aren't going to continue the same due to the current climate. "It's better not to spin it, and just give it to them straight."

Bressi said it is important to know what type of lender you are dealing with. "Before you even decide whether you are going to have a workout, it's important to understand the language the lending is speaking, or you won't be able to read it."

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