

Law Offices
James J. Falcone
520 Capitol Mall, Suite 600
Sacramento, California 95814-4717
JFalcone@JFalconeLaw.com

916/442-4204
November 1, 2009

Commercial Real Estate Loans- more loan modifications, or the next shoe to drop?

Jim Wasserman's comments in the Sacramento Bee this week (<http://tinyurl.com/yca992>) about the sobering outlook for the Sacramento office market are a local example of a nationwide problem.

Comptroller of the Currency John Dugan noted last Monday that the Nation's banks may be in for a "very rough ride" due to their commercial real estate portfolios. Speaking at the annual convention of the American Bankers Association, reported by Reuters, he noted that Government agencies have some help on the way for the lenders facing these challenges. This week, the federal bank regulators will publish new advice on loan modifications for commercial mortgages. That's right, Loan Modification guidelines for commercial borrowers. The regulators will be giving the banks guidelines. <http://tinyurl.com/yzeub3n>

As reported in the Philadelphia Enquirer, Capmark Financial Group Inc.'s (a major commercial mortgage lender) bankruptcy filing was no surprise, but was still a harsh reminder of the hard times ahead in the commercial real estate industry. "It's not a turning point. The problems are only starting," Dennis Yeskey, a senior adviser at AlixPartners L.L.P., a business-advisory firm in New York, said yesterday.

Yeskey and other experts warned that as long as the economy keeps shedding jobs, the commercial real estate market will be plagued by declining demand and falling property prices.

The problem for the industry is that between now and 2013, more than \$2 trillion in commercial mortgages, which typically have a five- to 10-year term, will need to be refinanced, according to a July report by Richard Parkus, head of commercial mortgage-backed securities at Deutsche Bank AG. It is not turmoil in the capital markets that is causing the bottleneck, but rather the fact that properties are not worth enough to retire the old debt in a refinancing, Parkus said. The value of commercial properties has fallen 40 percent from their peak in October 2007 through August, according the Moodys/REAL Commercial Property Price Index. <http://tinyurl.com/yztknav>