

MORTGAGE RATES | G2

Rates on 30-year fixed loans rise slightly but are still sub 5 percent.

IN THE TRENCHES | G4

Jackie Nolen enjoys the usual closing; also works short sales.

COMMERCIAL

Some exper property is r

Real Estate

SUNDAY, MAY 17, 2009

REAL ESTATE VOICES

Community Life:

JOE ADAMS



jadams@becker-poliakoff.com

Condo law update

New law covers fire sprinklers, director delinquencies and time shares **G2**

Commercial Connection:
MARK ALEXANDER



realestate@news-press.com

Bankers get blamed

Bankers catch a lot of criticism in this economy, but is it fair to blame them? **G4**

REAL ESTATE BRIEFS

More retail stores sign on at Mercato

The Lutgert Cos. today announced the signing of five more retail stores – Bobby Chan, Byte Shop Style, Mercato Jewelers, Pandora and Spectacles – to establish new locations at The Mercato in Naples. Construction is proceeding on the locations with each anticipated to open in late summer or fall.

Bobby Chan is an apparel store offering a high-end collection for the lifestyle-minded man and woman between the ages of 29 and 65.

Byte Shop Style is a locally owned computer company based in Naples. This will be the second Byte Shop location in the Naples area and it will occupy 2,100 square feet.

Mercato Jewelers is a local family-owned and operated jewelry store that also offers expert jewelry repair.

Pandora is a locally owned franchise retailer offering a wide variety of jewelry, interchangeable designer charms, fashion accessories and more.

Spectacles is a family-owned optical center being established by Tipton LeMay.

The Mercato is a condominium living community with a mix of shopping and dining on 53 acres at U.S. 41 North and Vanderbilt Road, Naples.

Homeowners cut back on renovations

Contractors assist in scaling back plans

The Associated Press

The estimate: \$13,600. The reaction: a hammer.

Daniel Bell is doing demolition work himself after a contractor told him how much it would cost to remodel the upstairs master bedroom and

bath in his 85-year-old farmhouse in Brentwood, Tenn. He's doing the trim work and painting too, and will shave \$3,725 off the total bill.

"You don't need a highly skilled person to do those things," said the 37-year-old minister, who tackled a good chunk of a downstairs renovation last year.

Spending on home improvements continues to decline as

rising unemployment and falling home prices dissuade consumers from investing in costly renovations. Homeowners spent \$124.6 billion on property improvements (excluding maintenance) in the first three months of the year, down nearly 8 percent from the year-ago period, according to Harvard University's Joint Center for Housing Studies. This year, the Center estimates spending on such

CAPE CORAL: WATER BUOYS PRICES



Richard and Cina Bartoline on the lanai of their home along Lake Finisterra in Cape Coral.



Canal access draws buyers

Community lifestyle attracts

COMMERCIAL CONNECTION

Bankers are getting all the blame,

No one had advance knowledge of market

Bankers seem to get blamed for everything wrong with the economy these days. But we all played a part, didn't we? After all, it was just a few years ago when we asked for easy credit loans and the banks had the audacity to approve us. So now we get mad that they did not have advance knowledge that the market was going to tank. But it appears that no one had this advance knowledge. We just had a tidal wave of residential foreclosures roll over us...and now that there are a few green shoots of grass sprouting up through our cracked pavements...we are facing a hurricane of commercial real estate foreclosures that is precariously perched on the near horizon. Here's an example of one of the outer bands of commercial foreclosures that has already hit our Southwest Florida shores. A bank recently foreclosed a \$14 million mortgage on a partially completed development project. A Lee County, Florida CCIM broker (i.e. not me) brought in a contract to the bank for \$4 million. The broker did his best to convince the bank that this was the best the market would pay at this time. The broker urged the bank to complete a new appraisal that he was sure would substantiate this price of \$4 million today. The Bank refused to pay for a proper

MARK ALEXANDER



marka@svn.com

appraisal and instead paid \$75 to a local vendor to give them an opinion of value which came in higher than \$4 million. The \$4 million contract was not accepted. But what's wrong with this picture apart from an unhappy buyer and broker? The bank representative appeared grossly untrained in commercial real estate valuations. Banks with lots of troubled assets really should have a CCIM on staff now to assist with evaluation and marketing of their commercial real estate assets that are in pre or post foreclosure status. Alternatively, troubled banks should make at least one of their loan officers obtain their CCIM designation. It only takes five 1-week classes to become a CCIM. A CCIM is the highest level of accreditation you can achieve in commercial real estate analysis and brokerage. You don't want Joe the Plumber or Sally the Secretary working on these deals. It is too important to the banks and to our economy.

NOT SO FAST

But here are some reasons why the banks may not want to move fast on clearing their books of bad commercial loans. Since they are now (or soon to be) the new unhappy owner of these troubled assets, why

should they sell at the bottom of the market if they don't have to? As a homeowner, wouldn't you rather wait (if you could) to get a better price later when the market comes back some day? But the government just had this stress test for the chosen few banks who will survive regardless of how bad their books look. Plus all the other banks have regulators climbing through their books once per year unless you are a brand new bank, in which case you get audited twice per year for the first three years of your existence. But what are all these auditors looking at? They are looking at the bad mortgages on the books and trying to figure their real worth. Why is this so hard? Because real estate is not a liquid asset like say stocks where you know the value of your stock at the end of each business day. Real estate does not change hands every day, every month...and sometimes not for many years. So what values do the banks use to carry these bad assets on their books? That is the heart of the problem. On that recent SWFL deal where the bank turned down a \$4 million offer when they held a mortgage for \$14 million....what do you think they are showing to auditors on their books for that asset? My guess is a lot higher than \$4 million regardless of true value today. The banks have come under fire for not marking their assets to current market value

(i.e. mark to market). I suspect the higher book value will make them look better to the auditor and buy them more time to survive to a later date when this asset should come up in value. It's quite a system these bankers have when you think about it. Imagine if I said to you, "I am not going to actually look, but you tell me how much money you have in your pocket, and if you have at least \$100 in your pocket, I will let you keep your home and your car." Well...what would you say? You would say, "Hell yes I have at least \$100 in my pocket, now go away." That is simplistically what the bank is doing with their regulators when they refuse to accept what the market will pay today and instead pick values out of the air for its troubled assets. Present value is what someone will pay today. Everything else is a guessed assumption for future value. But it is natural to expect the bank to act in its own self interest just like we all do for ourselves. The problem with the banks doing this now is that it could delay these foreclosed properties from being resold at market conditions today and hence prolong the pain of this down economy. We need to flush these bad assets off the books as quick as possible so we can stimulate the economy and get back to a more normal sustained business environment.

But the bankers are just acting like each of us

but is it fair?

would act in regard to our own respective homes. Who knows...maybe these stress tests will force the troubled banks to push some of these bad assets out the door and into the waiting arms of investors who will buy them at market prices...which are not real high at the moment. And if they don't sell their bad assets at market prices today and they do accept TARP Funds (i.e. the bank's government cheese for Banks) to have more cash to ride out this storm, what exactly is going to make banks suddenly become more aggressive and open their financing spigots to start lending freely again? Hmmmm. These slow economic times could continue for a while until this all shakes out. I don't think the government can force banks to sell bad assets at market prices today...any more than the government can force you to sell your home at a loss today. I realize not all banks were greedy and racked up bad loans over the past few years. I have found small independent banks like Florida Gulf Bank have close to no bad loans, did not accept TARP funds and are doing quite well in our area. So it is not fair to brand all banks as troubled.

When a bank accepts federal TARP funds, due to the cost of the TARP funding, it is difficult for the bank to lend this money out and still be competitive on rates while making a profit. The biggest thing TARP

funding seems to accomplish is to keep the doors open for troubled banks. Even though regulators are urging banks to limit their exposure to commercial real estate now, if I were a bank that accepted TARP funding to ensure I will stay in business, I believe that I would be more inclined to wait for the market to come back to sell my troubled assets later so I can make an eventual profit in this area. In the mean time, the government is paying for my bank rent and overhead expenses while we wait for the market to come back. That's sweet for the TARP assisted bank.

Small to medium sized regional banks are known to have more exposure to commercial real estate than large national banks.

Commercial real estate brokers would be well served to focus on talking with small to medium sized troubled banks who did not take TARP funding...to help them sell their troubled assets that need to be sold this year. The big banks already got bailed out by the government and appear not to have much incentive to sell their troubled assets now cheaply or quickly. But the rest of the troubled banks will have to clean up their books the old fashioned way. It is called "Sink or Swim."

— Mark Alexander, CCIM, is senior medical office adviser at Sperry Van Ness. Contact him at marka@svn.com or 826-4174.