

CONDO MARKET | G3

Condominiums will drag behind houses in market recovery.

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Agents get designations in LEED; distressed property expert.

FORECLOSURE

There is hope in dealing with

Real Estate

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REAL ESTATE VOICES

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Crist's veto of bill surprises some

Gov. Charlie Crist vetoed Senate Bill 714 on concerns about safety risk to residents **G3**

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Population growth means silver lining

Things have slowed, but Lee County continues to grow, and that will help fuel recovery **G7**

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S&O Foods buys 2 Lehigh buildings

See our roundup of the latest purchases and leases on commercial property **G9**



Disney adds time shares despite

Sudden growth spurt viewed as risky move

McClatchy News Service

ORLANDO — Inside Kidani Village, the Walt Disney World time share that opened earlier this month, the domed lobby is designed to evoke a thatched African hut. At the Treehouse Villas, the "cabin casual" theme includes exposed-wood support beams and refrigerators done in a dark, textured brown.

And at Bay Lake Tower, which opens this summer, floor-to-ceiling windows offer views of Cinderella Castle and Space Mountain.

The three new Central Florida properties — along with 50 new units that will open later this year at Disneyland in Anaheim, Calif. — constitute the most ambitious expansion yet for Disney Vacation Club, Disney's 17-year-old time-share unit.

It may also be the riskiest.

The growth spurt comes as

Vacation Club, like many other units across Walt Disney Co.'s media-and-entertainment empire, is being buffeted by the global recession and credit squeeze. Sales at the Celebration-based time-share business fell during the three months that ended March 28 — the first quarterly decline Disney has recorded at its time-share arm in at least 3 1/2 years.

That has added to the pressure at Disney's worldwide theme-park division, which has relied on Vacation Club to help

\$500,000: HOW MUCH HOME CAN YOU GET?



Population growth Fla.'s long-term silver lining

We must endure pain before recovery

Florida has enjoyed steady population growth every year since the 1940's due mainly to residents from the other U.S. states migrating to the sunshine state. This came to an abrupt stop in 2008 as 9,286 more U.S. citizens moved out of Florida than those who moved here from other states, according to U.S. Census report just released. Part of the cause is loss of Florida jobs coupled with concern over hurricanes and rising costs in property insurance and real estate taxes. But the main cause is Americans across the country staying put because they can't sell their house without taking a loss. Florida growth has always depended upon a mobile U.S. society. Our mobile society hit the brakes in 2008 due to the economy.

Luckily Florida still showed slight positive overall population growth in 2008 due to 77,427 more international residents (mostly from Latin America) moving to Florida compared to those who moved out.



\$248 billion in commercial real estate debt coming due in 2009 and another \$566 billion coming due in 2010 thru 2011. A massive wave of commercial real estate foreclosures has already started last month with notable landmark properties like the Hancock Tower in Boston. But just wait for the foreclosure fireworks in Atlanta where they have a 40 year supply of condos at their current sales pace due to 32 new condo projects under development. A one mile stretch of road in the affluent Buckhead area has four new office projects of a half-million square feet of space each. Three of them are 100 percent vacant and one office tower with the best leasing so far is 90 percent vacant. How would you like to be holding the mortgages on those Georgia peaches? This is a prime example of the trend across the country where big cities attracted speculative Wall Street capital for multiple commercial projects without pre-leasing. Smaller tertiary markets like southwest Florida did not attract the big Wall Street capitalized projects so we tend to be in a little better shape than big cities. But smaller markets still had their share of overbuilding. Just pick a commercial artery in southwest Florida and you can find small to mid-size new office projects scattered about with plenty of vacancy.

ZOMBIE BANKS

Many big national banks with lots of toxic mortgages have the look of the living dead today. These "Zombie Banks" are only standing because Uncle Sam is propping them up. The brain drain continues from these once venerable financial institutions. No one wants to partner with Uncle Sam anymore since he will cut your salary with public ridicule and tax your profits at 90 percent if you don't run things the "Uncle Sam Way". Uncle Sam is no longer just pointing his finger at you. If you accept his bail-out funds, Sam is sitting in your board room calling the shots now.

Deleveraging is the name of the game for banks today. Bank regulators are forcing banks to decrease their exposure to commercial real estate. This means banks must sell their foreclosed real estate assets and reduce mortgage balances when refinancing. Because banks have endured so much recent pain, they have much stricter lending policies today. Admittedly, it is like closing the barn door after the horses have run out. Be that as it may, buyers and bank customers refinancing their mortgages will still be required to put up more cash with shorter payback schedules. Most of the commercial properties that changed hands at top market prices (i.e. low cap rates) when rental rates and occupancy rates were strong between 2005 and 2007 are not going to qualify now for refinancing under these new stricter lending terms when their mortgages come due.

IN THE SHORT RUN

Population growth has always been important to Florida. When more people move here, they need more places to live, more places to shop, more places to eat and more places to work. This steady population growth has always fueled Florida demand for new homes, new shopping centers, new office buildings, new industrial parks, new restaurants and new hotels each year. Florida population growth is our long term silver lining through this short term world of up and down economies. But that population growth has now slowed dramatically and the source of our population growth has shifted to international residents. Habla Espanol? Yes, positive population growth in Florida is still better than negative population growth like many unfortunate U.S. states possess today. So Florida should continue to fare well in the long run, but what about the short run?

EYE ON COMMERCIAL

We have been slogging away at our supply of foreclosed homes for the past 18 months and we hope the rest can be flushed through the system over the next 12 months. But the commercial real estate mortgage defaults are just getting started. Foresight Analytics, LLC estimates



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DEAD HALT

But why has sales volume almost stopped in commercial real estate today?

Simply...there is too much difference between bid and asking prices. Sellers still want prices close to top of market that have long since passed. Buyers think every property is in foreclosure and offer way to low. Both sides are unrealistic. But banks are going to force many commercial "meeting of the minds" over the next three years by forcing sellers to sell at prices the market will bear.

A huge volume of commercial properties changed hands at the very top of the market between 2005 and 2007. We gasped in astonishment during those golden years at the ever-escalating sale prices. The banks helped lead us to these incredible heights of real estate ecstasy. Now the banks will lead us to incredible depths through foreclosed sales...as we solemnly watch commercial prices fall.

Falling commercial rental rates, rising vacancy rates lead to lower commercial valuations. We are back to cap rate levels of 9 percent to 10 percent that were last seen in 2002. These factors only add to the commercial seller's dubious position when he fatefully meets with his banker next to discuss refinancing. The next few years in commercial real estate should see many happy buyers, many depressed sellers and many bankers with bitten lower lips. But the quicker we endure the pain and flush these properties through the system, the quicker we will recover, stabilize and begin to grow again. Over the past two centuries, this real estate cycle in America has always been the same. It is the duration of the cycle that varies based on how we handle it.

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PAGE

CAPTION:
"ZOMBIE
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