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# Some Experts Believe Commercial Real Estate Troubles are Only Beginning

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While several recent reports have projected a glimmer of hope for the future of the commercial real estate market, some industry experts aren't convinced and are saying the market is due to suffer the same fate as the recent collapse of the housing market, only worse.



"What we are seeing now is the perfect recipe for disaster in the commercial real estate market in 2010," said Jeramie Concklin, CEO of Guardian Solutions, a commercial loan restructuring company based in Clearwater, Florida. "A huge number of balloon payments for commercial property loans are coming due in 2010 and 2011. With vacancy rates at high levels, unemployment soaring, and commercial property values plummeting, commercial property owners are not going to be able to service their debt without serious restructuring of their loans and business."

According to commercial research provider, Trepp, delinquent loans in commercial mortgage securities jumped 85 basis point to 5.65 percent at the end of November, a 4.8 percent increase from the prior month. The Mortgage Bankers Association (MBA) commercial/multifamily delinquency report showed that between the second and third quarters of 2009, the 30 plus day delinquency rate on loans held in commercial mortgage-backed securities (CMBS) rose to 4.06 percent, and the 60 day plus delinquency rate on loan held in life company portfolios rose to 0.23 percent. Additionally, Credit Suisse analysts found installment on \$22.4 billion of mortgages were 60 days late.

The increase in delinquency rates is expected to continue through the next year and peak in 2011, and there is about \$300 billion in negative equity overhang that needs

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to be refinanced in 2010 and 2011, Guardian Solutions said. Furthermore, as around \$2 trillion in commercial mortgages are expected to come due for payment within the next five years, the company said these numbers will only continue to increase.

The government has already taken steps in an effort to curb the impact of the impending commercial real estate meltdown, Guardian Solutions said. In order to open the opportunity for loan restructuring without imposing tax consequences to investors, the Internal Revenue Service (IRS) has removed adverse tax consequences to investors who grant commercial loan modifications to owners. In addition, the Federal Reserve is pushing new interagency guidance on restructuring commercial real estate loans.

"We applaud the government's efforts to help commercial property owners facing foreclosure secure loan restructuring," said Ira Friedman, COO of Guardian Solutions. "Unfortunately, the banks are not following suit. Credit remains tight and market conditions remain dismal, so refinancing is often off the table. Loan restructuring provides a viable alternative, but to successfully secure a restructured loan requires intimate knowledge of banking, business, law, and finance that most property owners do not have."

Commercial loan restructuring is a necessary but involved process during which a plan must be executed to help property owners avoid default and ultimately turn their non-performing asset into a performing asset. One aspect of this process includes permanently modifying the original mortgage to include terms more favorable to borrowers such as extending the length of the loan, reducing the interest rate, and lowering the mortgage payment. Loan restructuring also includes various other solutions to ensure the long- and short-term viability of an owner's commercial property such as a revised business plan, expenditure reductions, revamped pricing structures for franchise fees, and legal maneuvers to protect assets.

Because the technical and legal aspects involved with securing a commercial loan restructure are sometimes very complicated, Guardian Solutions said some property owners accept foreclosure instead of saving their investment. This can result in losing the property, severely damaging the borrower's credit, and may even cause the borrower to claim personal bankruptcy.

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