

MID ATLANTIC REAL ESTATE JOURNAL

NEW JERSEY-PENNSYLVANIA-DELAWARE-MARYLAND-VIRGINIA

Friday, July 9, 2010

Volume 20, Issue 11

MID YEAR REVIEW

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The state of commercial real estate lending in the NJ/NY Metropolitan area

For years commercial real estate lending transactions have been well and alive in the New Jersey/New York metropolitan area. The commercial real estate market has been a fundamental part of our economic fabric for many years. From property acquisition, to development, to tenanting of commercial real estate, whether it be an office building, warehouse, industrial building, shopping center, or apartment house, the process has been dynamic and, indeed, has supported our regional economy. From growing our workforce and injecting large sums of money into our economy, the real estate market bubble has expanded exponentially driving our economy through the roof.

That is, until now!

The commercial real estate marketplace is sadly a shadow of its prior self. As a practicing commercial real estate attorney for many years, I have represented buyers, sellers, developers, tenants and brokers alike, as well as lending institutions. I have lived through the turbulent real estate cycles of the 80's, 90's and the 2000's. All of that being said, I must report that the commercial real estate marketplace is in catatonic disorder in the New Jersey/New York Metropolitan area.



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There are those who have attributed this downturn to just another down cycle, in what has become a disturbing repetitive theme throughout the years. There are others who attribute this to the lenders who, through years of wild, and sometimes unreasonable, excessive lending, created the basis for an impending regional and national catastrophe.

Whatever the root cause, the banking industry has become paralyzed. If lenders are presented with a commercial real estate transaction, they will think twice about approving a loan, even if the value numbers for the real estate work, and even if the underlying collateral for the loan is secure. Bankers fear the continued drop off in property values, thereby precipitating smaller loans based, in part, upon smaller loan to value ratios. Bankers

fear the dreaded governmental regulators, who, hearing of a commercial real estate loan, caution the lenders that enhanced capital ratios will be required, thereby driving down the profitability of the loans in the first instance. Banks are now requiring full personal guarantees of borrowers' principals, just to open their doors to discussions of possible loans. To compound the problem, our government has suggested potential tax increases directed to commercial real estate investment development, including increasing the capital gains tax rate. The combination of these affects has created a "perfect storm", essentially paralyzing lending on commercial real estate and driving property owners and purchasers alike, to the sidelines, waiting for a change in the economic, political and regulatory climate.

Fortunately, New York has not felt this effect as greatly as the suburban regions surrounding New York, due to the sheer momentum of the lending engine that has driven the New York real estate market for so many years. However, if the state of facts as described above continues for any substantially longer period, I am afraid that even the New York real estate market will experience the same adverse affects that the other regional areas are

experiencing now.

If the above seems to be all gloom and doom, it is not. There is a light at the end of the tunnel. Surprisingly, multi-family apartment properties now appear to be the "gold standard" as far as lenders are concerned. Indeed, my Firm represents a client who is refinancing an apartment house with a ten year loan from Freddie Mac that is over \$10,000,000.00 with a locked-in interest rate of 5.18%.

Going forward, what will be required is concerted cooperation among government, the banking industry, and the real estate industry to provide a framework within which the normal and customary lending transactions can begin again, and indeed, flourish going forward. More regulation, merely for political gain, will punish the banks, perpetuate the freeze in lending, and continue the downward spiral of our economy. It is only in the context of a renewed spirit of cooperation between government and the private sector that the crisis we are presently seeing in the commercial real estate marketplace and commercial real estate lending will be resolved.

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