The Commercial Real Estate Tsunami
A Survival Guide for Lenders, Owners, Buyers, and Brokers

TONY WOOD

Foreword by Matthew Anderson, Foresight Analytics
Additional Praise for

*The Commercial Real Estate Tsunami*

“Tony Wood has compiled more than just valuable information about commercial real estate; this book shares actionable insights that will inform both commercial real estate professionals as well as their business owner clients. What makes this book standout is that it is more than just a warning of a challenging market, but an invaluable roadmap that offers specific strategies to guide brokers, clients and others through this crisis.”
—Doug Frye, President and CEO, CMN, Inc., Colliers International

“The coming wave of loan defaults in commercial real estate deals will create major downward pressures on the general recovery of the U.S. economy. Many borrowers will lose their properties and many lenders will lose money. Those directly engaged in commercial property markets on any level will find many practical suggestions in this book to cope with these dire future events.”
—Anthony Downs, Senior Fellow, Metropolitan Policy Department, Brookings Institution, Author, *Real Estate and the Financial Crisis*

*The Commercial Real Estate Tsunami* should have a lasting place on any commercial real estate professional’s bookshelf not just for managing today’s investment real estate bust but also for recognizing the signs of the next, inevitable real estate investment boom and to better position yourself and your business to avoid getting caught up in the tides of this cyclical marketplace.”
—Michael Gottlieb, Editor, *California Real Estate Journal*

“Tony’s book goes beyond a traditional analytical framework by placing elements of the commercial real estate finance crisis under a microscope and pairs market observations with actionable strategies to operate in challenging times. He covers the spectrum from underlying fundamentals through loan triage for lenders to strategies for borrowers to best-practices for brokers . . . all delivered with relevant support from industry experts. A sturdy guide for difficult times.”
—Owen Rouse, President, CORFAC International

“Mr. Wood does an excellent job of revealing not only the probable crisis in commercial real estate but most importantly the danger and fallacy of any policy that allows those who overpaid or lent too much to ‘extend and pretend.’”
—Christopher N. Macke, Chief Executive Officer, General Equity Real Estate
“. . . a thorough effort in understanding the current size and scope of the issues facing the CRE Industry, its economic importance in the overall economy, along with some very practical and real world ideas for improving the current situation and surviving the inevitable shock for all interested parties. Opportunity favors the prepared mind and Tony helps clear away the fear by preparing a playbook for the eventual long range investment opportunities that will arise when the Tsunami waters recede. Very nice work!”

—Jim McCarthy, Chief Operating Officer, Legacy Capital Management, Inc.

“The meltdown of commercial real estate will affect our country for years to come and cost owners and lenders hundreds of billions of dollars in losses. This is a must read for developers, professionals, lenders, brokers, investors and business owners everywhere.”

—Michael Hawes, CPA and Principal, Michael Hawes & Associates

“The pending commercial lending debacle will have a tremendous impact on the economy unless we take preemptive measures. Tony Wood is an insightful real estate broker and has encapsulated the issue for the layman to understand.”

—Mark Giovanzana, Senior Vice President, Colliers International

“Tony does a fine job of presenting a well documented anthology of the events and causes leading up to The Commercial Real Estate Tsunami as well as provides a must read ‘Survival Guide’ for all of the professions that have a ‘seat at the table’ of Commercial Investment Real Estate.”

—Robert B. Toothaker, CPM, Chairman, CB Richard Ellis Bradley; National Association of Realtors, 2009 Chair of The Realtors Commercial Alliance
The Commercial Real Estate Tsunami
Founded in 1807, John Wiley & Sons is the oldest independent publishing company in the United States. With offices in North America, Europe, Australia, and Asia, Wiley is globally committed to developing and marketing print and electronic products and services for our customers’ professional and personal knowledge and understanding.

The Wiley Finance series contains books written specifically for finance and investment professionals as well as sophisticated individual investors and their financial advisors. Book topics range from portfolio management to e-commerce, risk management, financial engineering, valuation, and financial instrument analysis, as well as much more.

To my wife, Donna, and our three children, Campbell, Aidan, and Aspen:
Waves of joy and inspiration follow wherever you go,
making life better for those in your wake.
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It has been said that the four most dangerous words in the English language are, “This time is different.” There are several factors that make this downturn feel different. The most worrisome is the record amount of commercial mortgages coming due—a tsunami of debt—as we head deeper into the commercial real estate downturn. Combined with the weakest economic and financial conditions in generations, this tsunami of debt threatens to derail a nascent economic recovery and hit the financial markets with a second round of losses. This book arrives then as the commercial real estate industry is staggering under the weight of debt amassed during a commercial real estate boom, not unlike the residential real estate boom-and-bust that has laid waste to the national, regional, and local economies. We are still in the earlier phases of this downturn—as Tony points out, the commercial real estate market was essentially running on fumes for most of 2008, and the plunge in prices at the heart of our current problems really only gathered momentum from late-2008 into 2009. And by most accounts, this drop in prices probably has further to go before hitting bottom.

As Tony and the other contributors to this book point out, the real estate market has gone through boom/bust cycles before. So, while the severity of the issue is off the charts, there are definitely many features in common with previous cycles; moreover, there are mechanisms to deal with it—foreclosure and workouts to name a couple—that are clearly described herein.

This book fills a void in our understanding of the causes of the crisis, and more importantly should help market participants—investors, developers, lenders, and brokers—get vitally needed perspective on where we might be going next and how we will get there. The commercial real estate downturn of the 1980s and 1990s and subsequent recovery provides us with hope that frozen markets can be unfrozen, as well as plenty of “lessons learned” that are every bit as applicable now as then.
So read on, and gain insights from some folks who have plenty of lessons for today’s market, as well as hard-won perspective gained from having lived through previous cycles.

Matthew Anderson
Partner, Foresight Analytics, LLC
Oakland, California
tsu•na•mi (tsoo-nä -me)
n. pl. -mis, -mi
1. A very large wave caused by an unforeseen event; often results in extreme destruction when it strikes; an event resulting in great loss and misfortune 2. A sudden increase in overwhelming number or volume

sur•vive (ser-viv)
v. sur•vived, sur•viv•ing, sur•vives
1. To remain alive or in existence 2. To carry on despite hardships or trauma; persevere 3. To remain functional or usable 4. To live longer than; outlive 5. To live, persist, or remain usable through 6. To cope with (a trauma or setback); persevere after
It is rapidly becoming a well-known fact throughout the financial markets and commercial real estate industry that a tsunami is imminent for the commercial real estate industry. This tsunami is not comprised of water but of debt. All indications are that the trillion-plus dollars of commercial real estate loan maturities between 2010 through 2013 combined with the commercial real estate markets being battered by the economic collapse...
we are currently experiencing will result in conditions the marketplace has never seen before. Exactly how much of the estimated $6 trillion value of the nation’s commercial real estate will be lost is difficult to know, but the losses will be historic in size and breadth. The impact on banks and other lending institutions nationwide will result in closures not seen since the Savings and Loan (S&L) crisis of the 1980s or The Great Depression. The situation is urgent and requires immediate attention. This is evidenced by the growing political and media discussions of the subject and the commercial real estate institutions that have agreed to be contributors to this book. CCIM Institute; Foresight Analytics; Maura O’Connor, Partner of Seyfarth Shaw LLP and author of the Globe St. blog Practical Counsel; Dr. Sam Chandan, Real Estate Econometrics; Tom Loeswick of Shirlaws, a global business coaching firm; and many others have not only helped make this book an important wake-up call to the industry, but also offer solutions for the journey ahead.

This book is the first of its kind in many ways. It is the first book to address the phenomena of the pending wave of commercial debt maturities coming due in the next five years and the impact those maturities will have on the commercial real estate markets when combined with the historic economic crisis the world is experiencing at this time. This is the first time CoStar Group, with one of the largest commercial real estate databases in the United States, has ever provided its market survey data for a book. Never before has such a group of experts from varied sectors of the commercial real estate industry come together to provide insights and solutions for the anticipated wave of commercial real estate debt maturities, the resulting foreclosures, loss of value, and the battered commercial real estate marketplace.

Commercial real estate foreclosures and REOs (Real Estate Owned by lenders taken back in foreclosures), commercial loan modifications and loan workouts, new investor expectations, and property management challenges combined with the survival of commercial real estate firms across the country will all be major issues to contend with in the months and years ahead. The psychological impact on commercial real estate investors in every market is already reflected in part by the stunning drop in sales activity (Figure I.1). These concerns are addressed in this book with solutions anyone in the commercial real estate industry can benefit from. In my 34 years in the commercial real estate industry I have seen many kinds of markets, properties, and ownership trends. I have represented most every kind of owner of commercial real estate, from Fortune 500 companies to local 7-Eleven stores, well-known retailers and huge distribution facilities, apartments, shopping centers, and industrial buildings. My work throughout the western United States has included consulting to major banks and insurance companies as my clients in the disposition of their properties that had been taken back in foreclosure. I survived the 1980s, years of double-digit inflation, high