

Flagler gets \$460M CMBS mortgage

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By Oscar Pedro Musibay

If real estate watchers think Flagler's recent \$460 million deal signals an immediate resurrection of the commercial mortgage-backed securities (CMBS) market, they will likely be disappointed, experts say.

As the Business Journal reported on Dec. 14, Coral Gables-based Flagler said the deal involving Banc of America Securities was the first non-government-supported CMBS issued in the past 18 months. Given that the CMBS market has been frozen, the question was whether this deal might signal a thaw.

Gavin Campbell, of Miami-based Steelbridge Capital, sees a glimmer of hope in this deal and another that involved the Federal Reserve. He pointed out that some of the Flagler assets that got the CMBS financing had little or no debt, including railroad rights of way. (Flagler is a subsidiary of Florida East Coast Industries, which was acquired by Fortress Investment Group for \$3.5 billion.)

That contrasts with many other owner property owners, whose asset valuations have dropped significantly from the time they made their purchases and which are overleveraged.

"This is not the magic bullet," Campbell said.

For months, commercial industry experts have been talking about overbuilding, overleveraged property owners and the coming wave of commercial foreclosures. Buyers at the peak of the commercial market overpaid for assets whose tenants, especially during an economic downturn, could not cover debt payments, especially on interest-only debt.

With loans coming due in the next three years, and lending too expensive or non-existent for many overleveraged owners, a big wave of foreclosures is still on the horizon, Campbell said.

Walter Byrd, Transwestern's South Florida managing director, concurs that downgraded asset valuations do not bode well for owners. He pointed to CMBS delinquency on past deals rising every quarter.

"Expect that to continue," he said.

"The execution of this financing, particularly in light of current market conditions, reflects the strength of Flagler's real estate portfolio," Flagler President and CEO Jose Hevia said in a news release.

The company operates and manages about 23 million square feet of commercial real estate in Florida.

Both Campbell and Charles Foschini, vice chairman of debt and equity finance at CB Richard Ellis, pointed to another bond deal as important commercial milestones. Ohio-based mall developer Developers Diversified Realty Corp. got help from the Federal Reserve in selling \$400 million of new commercial mortgage bonds last month. The federal Term Asset-Backed Securities Loan Facility program provides money to buy securities.

The deals signal that some confidence is returning to the \$700 billion CMBS market, but the infrastructure for origination was gutted during the collapse. Some originators, like Lehman Bros., disappeared altogether.

It will take 12 to 18 months to rebuild the infrastructure, Foschini said.

“Transactions like these will set confidence to turn the lights back on at CMBS desks on Wall Street, and create demand for the paper by institutions,” he said.