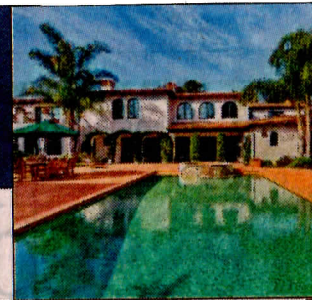


REAL ESTATE

Distressed homes sell twice as fast / PAGE 2



City's priciest home for sale

Hot Homes/ PAGE 4

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REAL ESTATE Q&A

More commercial defaults lie ahead

By JEFF COLLINS

THE ORANGE COUNTY REGISTER

Q. Is the worst of the default crisis behind us in the commercial real estate industry?

A. Nope, the maturity date issue has only just started.

The largest volume of loan originations occurred between 2005 and 2007, so to put this in perspective, the combined total issuances in 2009, 2010 and 2011 will likely not exceed 20 percent to 25 percent of the issuances in 2007. The bulk of the problems seen to date are land loans, development and construction loans, coverage issues caused by the recession/loss of tenants and maturity date issues.

Going forward we anticipate maturity date issues and lenders taking a hard stance on loan cov-

enants (now that their balance sheets are in better shape than 2009/2010) will be the order of the day. And although cap rates have made a dramatic recovery in some categories, lease rates (the net operating income) has not, thus refinancing will continue to be an issue due to loan-to-value and debt service coverage ratio issues.

Q. How much longer and how much bad debt does the industry still face?

A. According to the Pension Real Estate Association (PREA), \$594 billion on commercial mortgage-backed security (CMBS) loans were made between 2005 and 2007. This in comparison to \$48 billion in loans made between 2008 and today.

These loans typically had five- to 10-year terms.

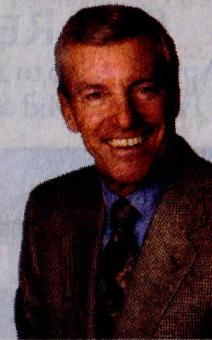
David Mudgett

Title: President and chief operating officer

Companies: Land Interests Inc. and Paladin Asset Preservation & Management Inc.

Location: Irvine

Background: Mall guru David Mudgett has been a commercial real estate manager for decades.



You can see for yourself what lies ahead. Unless rents climb significantly, we have a major challenge ahead of us.

Q. What's the outlook for commercial property for Orange County and the region?

A. The small-shop owner is still under extreme pressure due to reduced sales and limited access to capital. This reduces their

ability to expand or grow their business. Until there is a growth in sales, rents will remain at today's level.

Fortunately, economic conditions and limited capital have also brought most ground-up development to a halt. This will provide a window of opportunity for those commercial properties that could benefit from an upgrade.

Q. What do you see as the

major issues facing the commercial and residential real estate industries in Orange County in the near- and long-term?

A. There is near- and mid-term over supply in many asset classes. The ability to access capital given the significant decline in lease rates, combined with more stringent lender underwriting requirements, will present continued challenges for some time to come.

Q. Are retail landlords and malls still stuck with a lot of vacant storefronts, or are there signs they're starting to fill up again?

A. Frankly, B or C properties will remain B or C properties. Commercial properties were easily leased due to high demand and a limitation of quality locations. Limitations of

space and high rents drove tenants to these secondary properties. With A locations now having available space, the weak properties need to consider alternative strategies to keep space leased.

Q. Many experts are saying that now is a good time to buy property.

A. It is a good time if you can get a loan, lease it and hold it until lease rates appreciate and/or cap rates decrease. (Cap rate compression has already occurred faster than anyone predicted.)

However, if you can get the loan, the risk then becomes interest rate, lease rate, and tenant default/release risk. If interest rates increase and leases can't be reset, then the borrower/bank is going to have an issue.