

Q&A: Patrick C. Sargent

President, Commercial Mortgage Securities Association

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The commercial real estate market typically lags behind the rest of the economy, says Patrick C. Sargent, president of the Commercial Mortgage Securities Association. Which means recovery for the sector could be a ways off. Sargent explains the potential impact of government initiatives, including the Term Asset-Backed Securities Loan Facility (TALF) — recently extended to this coming March for legacy commercial mortgage-backed securities (CMBSs) and to June for new CMBSs.



Overall, how effective has TALF been in increasing CMBS purchases?

It is a substantially better market now than it was 10 months ago — and even five or six months ago.

The best way to look at it is to see where we were back in October or November 2008. Spreads on AAA-rated CMBSs were anywhere from 1,200 basis points to 1,600 basis points over, and that was fairly unsustainable.

The announcement and in fact, the anticipation of TALF being extended to CMBSs [this past May brought] spreads in 500 basis points to 600 basis points. And if you look at where AAA securities are now, they've tightened to as low as 300 basis points over.

How will the Fed's extension of TALF to 2010 help the commercial mortgage industry?

An important aspect of commercial mortgage financing is that to put together a large-scale capital-markets securitization, it takes at least three to four months to get it set up, structured and ready to launch.

We see that TALF already has brought in spreads on CMBSs and is an opportunity for financing that the investment community wants to pursue. That's what brings back liquidity. I think that having it in effect [longer] will facilitate that transition of investors back into the marketplace.

What does the association expect for the coming year?

The headline is "Recovery" here. In 2007, more than \$230 billion of CMBSs was issued. In 2008, that was down to about \$12 billion. And this year, it has been anemic at best, except for the fact that a few of the government programs designed to unlock some of the liquidity have been successful. We're starting to see an environment that's a little bit more sustainable for making new loans.

We're already seeing [recovery], with gross domestic product expected to turn positive. Commercial does lag, and so we're going to have unemployment high for a little while. And we're going to have increasing commercial mortgage defaults — at least through this year and probably through a good part of 2010.

What are the opportunities in today's commercial real estate market?

I think there are great buying opportunities for properties. Anybody that has dry powder [i.e., cash reserves] has an ability to come in and perhaps buy or make loans, depending upon whether they want to be on the equity side or the debt side. A lot of borrowers are out there in a difficult situation because it is tougher to refinance.

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