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It's not the interest rate, it's the equity: Pricing needs to be reset for assets to trade on open market

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"Help, I'm stuck and I can't get up! The prognosis for this Spring Preview is that we will continue to wallow in the quagmire of this credit crisis until the holders of CMBS debt begin to sell it off at market rate prices. The people servicing these vast pools of debt are the owners of the "B" pieces or "first loss" positions of this debt and if they actually sell for less than the face value of the notes, they are on the hook to the rest of the bond holders in the capital stack for the shortfall. The Servicer has the right in many cases to extend or hold onto the asset for up to three years without approval from the other bond holders.

Compounding the problem is the Servicer's inability to restructure the loans or inject creativity to preserve or create credit recovery. "It's either pay me off or hand it back." Said one Servicer frustrated with his inability to actually manage the situation.

While we sit and wait, billions of dollars of loans are maturing without the ability to refinance. Some $40 billion of commercial paper is coming due in 2009. This number grows to approximately $300 billion in 2011 and $400 billion in 2012, when the 5 year notes, written at the height of the CMBS lending frenzy come due. Investors looking to refinance face an almost impossibility as the "balance sheet" lenders have their own problems to worry about. Actually if you added up the total capacity of all balance sheet lenders, it isn't sufficient to meet the refinancing demand we face over the next several years. This is not a 2009 or 2010 problem. We will be dealing with credit issues through the next decade as billions in CMBS loans were underwritten with 10 year maturities. We'll be dealing with this same refinancing problem well into 2015, 2016 and 2017.

So what do we do? We allow the FDIC and the banks/bond holders to put these loans with a "bad bank" which will be charged with selling off the loans on the open market. The banks will get these loans off their books, clearing space for them to lend money again. The loans will be sold to private equity funds or individual investors. Those new owners will be able to refinance and restructure the debt and preserve the overall value of the asset.

It should be understood that many of these loans are performing and if not for the credit crisis in the first place, would not be stressed. Therefore the competition for theses assets will cause the pricing to be very competitive. Instead of the "mark to market" having to drive the price to $zero, maybe 70%, 80% or even 90% will be recouped. The people in the first loss position will be hurt badly, however, they accepted high risk for high teen returns. Also, a tranche of 1% to 4% of the stack shouldn't be allowed to control the other 96% to 99%.

It's not the interest rate, it's the equity. Lowering the interest rate doesn't help when you have no equity in the property and no place to refinance the asset. We have to reset pricing for these assets so that they can trade on the open market. Until this happens we continue to wallow in this quagmire and watch as asset values of all classes, not just hotels erode.

Hotel revenue performance in 2009 in New England is projected to be off by 17% to 20%. Hotel owners have begun to panic and cut rates by offering package deals. A quick look at hotels.com will show prominent hotels in Boston offering rates of $109 per night. The proclamations from experts that cutting rates does not induce significant guest room demand has fallen on deaf ears and it will be years before the area gets back to the 2007 peak performance levels.

Hopefully this spring will bring good economic news and we'll beginning to see the light at the end of the tunnel. However, presently the tunnel is very long and you might have to pay a $7.50 toll to get out.

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