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## Fantini and Goodwin speak at Lambda Alpha meeting

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The Boston Chapter of Lambda Alpha International (LAI) met for its first luncheon event on February 24th. George Fantini, Jr., chairman of Fantini & Gorga and Thomas Goodwin, executive VP of The Debt Exchange discussed the real estate capital marketplace. Here is a summary.

\*Fantini believes that today is much worse than 1990.

\*In 1990 banks stopped lending but today there are 2 categories of banks: 1) big banks and 2) regional smaller banks. The big banks are now out of the business of lending.

\*Regulation covenants stipulate that a bank maintain its LTV on loans. Therefore if the value of the property decreases then the loan amount must be reduced and more equity is needed. Borrowers do not have the equity and in anticipation of this problem banks are holding reserves.

\*The smaller banks are lending but running out of capacity.

\*The life insurance companies were the steadiest suppliers of financing. In a good year, they would transact about \$40 billion of loans. In '09 there will be only \$15 billion of loans.

\*Fantini could not stress enough how the CMBS industry has come to a halt.

\*In 2006, there were \$ 200 billion of long-term loans in the securities business. In 2009 there will be \$0.

Goodwin has been active with the secondary market and commercial debt on a national basis. He felt that Boston was insulated from the worst of the national real estate issues.

Here is his summary:

### Capital Markets

Today there are 8-10,000 participants in this industry when in 1992 there were only 8-10 participants. Pension funds are the asset allocation beasts with 90% in safe investments and 10% invested in "other investments" which includes real estate. But then in 1996, they shifted and moved more money into real estate. During September/October '08 they were overweighed in real estate and decided to halt further acquisitions. They were over-inventoried in real estate and depleted of capital.

\*As a rule, 25% of a finished house price is the price an investor wants to pay for a house lot. With a decline in the housing prices of 25-80%, the lot is worth only 10% of a finished house lot.

\*In Michigan, Goodwin saw unimproved, un-entitled land selling at 5-10 cents on the dollar and now it has to be given away with a 100 years of supply.

When will capital return and when will we "burn down" inventory?

\*Goodwin stated that unfortunately this is everyone's question and no one has the answer.

\*There are issues with "Mark to Market" concept for real estate. Banks will refinance residential loans that are expiring. The banks will be selective deciding which loans they are willing to refinance. REMIC (real estate mortgage investment conduit) will also constrain what banks can do with lending.

## CMBS Industry and Value

Fantini said that the CMBS commercial model has been a massive failure. The CMBS industry has to be replaced.

\*Goodwin said that there would be a further decline in U.S. real estate values but not as severe in Mass. due to our permitting controls. Another issue nationally, people who are losing their homes are opting to move home with their parents. There is no market right now rather than rent.

\*Rating agencies made poor assumptions that real estate values would continue to increase. The rating agencies may now over compensate for these poor decisions. The bottom of the housing price may be the 4th Q '09 and housing prices will start to rise by 3Q '10.

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