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Insurance Companies Could Stand in for Commercial Banks As Financing Source in 2010

By Anuradha Kher, Online News Editor

New York–After a less than pleasant 2009, multifamily owners, developers and managers entered 2010 with grave reservations. While the free fall of the economy has ended, millions of people are left jobless and this will continue to have an impact on the multifamily sector, which depends heavily on household creation. So while most industry leaders are very optimistic about 2011 and 2012, they are sensing some hurdles in 2010. The good news is that opportunities are also being created.

O. Randall Woodbury, CPM, president of Institute of Real Estate Management (IREM), tells *MHN*, “The number one issue facing all of us in 2010 is high vacancy rates. In addition, lower rental rates will increase pressure on operating efficiencies and alternative revenue sources in order to bolster NOI and try to offset declining property values. This will put pressure on us to hold value in whatever way we can do that. Another big trend for 2010 is the continued shortage of capital that just adds to the pressure that owners face in identifying alternative capital sources.”

Another big trend in 2010 will be technology and social media. “These are playing an ever increasing role in marketing and communications. There is a need for people managing communities to understand it and use it to their advantage so that its not used to their disadvantage,” says Woodbury.

The green movement is not going away and it will continue to affect consumers, building owners and operators. “At the same time, we are pressed from the capital side and that will probably have the effect of delaying green retrofits where owners might have desire to spend green capital but just don’t have it or are afraid to spend on it right now even though they know it’s the right to do, because they are just trying to make their mortgage payments,” says Woodbury.

A new kind of financing vehicle is also emerging this year. “In the markets we serve, there are insurance companies that are willing to lend. At a time when banks are not providing a big chunk of the capital, opportunities are opening up for small- to mid-size companies that weren’t prime player in the days of million-dollar deals. There is an opportunity for the insurance industry to step in and stand in for commercial banks," says Woodbury.

One of the few silver linings of the housing crisis is restructuring distressed properties. "The foreclosures that are pending will create opportunities for companies doing workouts and dealing with foreclosure situations," says Woodbury.

Pete Berman, CEO of The Ruby Group, a consulting, development and construction company, based in the Hudson Valley in New York, also believes this to be one of the biggest trends for the coming year. "Flipping foreclosed homes and investing in distressed properties is one of the biggest trends/opportunities for 2010. A lot of people want to buy distressed properties simply because of the lure of a great deal. They want to say: 'Oh it was such a bad recession but we acquired some properties at great discounts," Berman tells *MHN*.

Unlike Woodbury Berman expects lower vacancy rates as some jobs are created and most importantly, as fear subsides." Various things are happening: immigrants are supposedly returning to their home countries and a lot of people are doubling up. But they can only live with family for so long. New household formation exceeds new unit construction, so demand will fill supply," says Berman.

Meanwhile, the for-sale multi-housing product will see further reduction in prices. Gea Elika, the founder of Elika Associates, Manhattan's only exclusive buyers agency, tells *MHN*, "A developer opening his condo this year can expect to reduce prices. There is a big spread in what the buyers see as value and what sellers see as value. There has to be a re-balancing of pricing. I think the formula needs to adjust based on macro-economic conditions because it is buyers confidence that facilitates the pricing."

A shifting trend in the Manhattan condo market is that people aren't looking for themselves anymore but for the purpose of investment. "They want to get some sort of yield. In Manhattan, in the price range of $2.5-$3 million a lot of people are looking to buy for investing. People are looking for stability, not looking for speculative properties with less downside risk, a good location and neighborhood, weighing both to see where the appreciation will be down the line," says Elika. "The first time homebuyer market is hot right now with the strongest activity at the moment."

The company closed $36 million in deals last year and is trying to be 20 percent above that this year—$50 million in gross deals.